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VOL. 73 NO. 12

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ON THE COVER: Photo-illustration by C.J. Burton

COURTESY ABBVIE

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Sales through dealers and carriers, street vendors, and counter sales (not mailed)	13,951	14,500
Total paid print distribution	653,895	873,014
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Free or nominal rate print distribution outside the mail (by carriers and other means)	10	10
Total free or nominal rate print distribution	491	177
Total print distribution	654,386	873,191
Print copies not distributed	75,301	71,335
Total print copies	729,687	944,526
Percent paid (print)	99.93%	99.98%
Paid electronic copies	11,529	8,600
Total paid print + paid electronic	665,424	881,614
Total print distribution + paid electronic	665,915	881,791
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FROM THE EDITOR

Mark Solheim

Come Together

In many ways, 2019 was the year of ... 1969. We observed a number of significant semicentennials—the Apollo 11 moon landing, Woodstock and, near and dear to my heart, the release of *Abbey Road,* the Beatles' last recording. (I've been listening to the recently released demo tracks that come with the super-deluxe boxed set.)

The year 1969 also ushered in a brief recession. Spending on the Johnson administration's Great Society, plus financing the war in Vietnam, had pushed the deficit higher. The Federal Reserve was increasing the money supply, and inflation was accelerating. Efforts to close the government's budget deficits by, among other things, raising interest rates created an economic contraction. A couple of years later, President Nixon imposed the popular but now widely decried wage and price controls—some say to help secure his reelection in 1972. It was a hot mess.

As in 1969, the U.S. now has a ballooning federal budget deficit exacerbated by the latest tax law, but we are thankfully free of many of the other economic pressures we faced 50 years ago, and the free market remains essentially free (if you overlook a few tariffs).

The consensus of economists—and our *Kiplinger Letter*—is that a recession is still a ways off, giving legs to the longest U.S. economic expansion in history. And speaking of record-breaking runs, investing pundits tell us that this bull market may limp along for a while longer—as long as U.S. firms continue to post higher earnings and continue to produce more jobs, and the Fed stays flexible on interest rates.

Taxes and a volatile market. Even so, it's smart to take a look at your own finances for ways to improve your bottom line and prepare for the new year. That's the theme of our cover story, starting on page 46.

IT'S A GOOD IDEA TO SCHEDULE A FAMILY CONVERSATION ABOUT ASSETS AND INTENTIONS.

I'm still feeling the pain of the new tax law on my family's budget, and I took steps this year to increase our withholding. Most of you still have several pay periods left in 2019 to boost tax withholding (the cover story explains how to do it, with a link to a tax estimator tool). Another smart move, after Standard & Poor's 500-stock index's 20% climb in 2019 (as of mid October), is to cash in some winners. In a taxable account, you can offset the capital gains taxes by selling losing investments.

The market's run-up may have knocked your portfolio's balance out of whack. The solution is rebalancing. I am primarily a set-it-and-forget-it investor, and I admit my own rebalancing efforts are a bit seat-of-the-pants. When I sense that I'm too heavily invested in, say, large-company growth or small-company stocks, I take some of those investments off the table.

But a lot of investors follow a more rigorous plan. My father-in-law, for example, aims for a 50-50 split between stocks and fixed income. (He's more aggressive than most investors over age 80.) He rebalances in February, May and November, and he attributes the considerable appreciation in his portfolio in the past decade partly to that discipline.

As we also point out in our cover story, it's a good idea to schedule a family conversation about assets and intentions. (My in-laws have begun to share financial information with my wife and me, and I have handled my mother's finances for years.) The actual discussion is better to have sometime in the new year rather than over holiday turkey and dressing. The point isn't to have a "you never give me your money" talk, but to make a commitment to come together and have some hard but fruitful conversations. ■

Mark Solheim

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POON WATCHARA-AMPHAIWAN


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Battling the Bureaus

I tried signing up at http://my.Equifax.com to enable setting and lifting credit freezes for both my wife and myself ("Battle the Credit Bureaus and Win," Oct.). Getting *my* account set up was easy, and it works fine. But when setting up my wife's account, I apparently answered one of the annoying verification questions incorrectly. Now I get an error when trying to use it. I have contacted Equifax via phone multiple times over the past three months, but to no avail. The reps say they cannot correct the problem. Now if I want to place or lift a freeze for her, I must telephone Equifax and have her answer various questions for verification. After reading about all the problems encountered by other readers, I don't feel so aggrieved.

JOE MITCHELL
CORRALES, N.M.

These companies are more than baffling. We froze our reports following a significant data breach that affected us years ago. We saved passwords and PINs to unfreeze the reports, but when we tried to do so to make a car purchase, Equifax said it had "changed its policies" and would now need a written letter and new identification. They added that this process would take seven to 10 days for approval, and it was the *only* way to lift the freeze. Seriously pressed for time, we somehow logged on to our accounts, re-edited our information and changed passwords, and we were "mysteriously" able to temporarily lift the freeze online. It took us 3 hours of problem-solving. This is crazy. Others who need to lift their freezes should prepare for this work weeks in advance prior to purchases.

LESLIE AND TOM MONTAGNE,
SPARTANBURG, S.C.

How to complain. Dealing with a large broker, I went through all the steps in your article "How to Complain and Get Results" (Oct.). When posting to its multiple social media pages only led to more lip service, I searched for a few hours online and was able to find the e-mail address for the CEO of the company. I e-mailed and overnighted of all my communications to him. I received a call from the broker's "executive office" the next morning, and the issue was resolved to my satisfaction. Thank you!

FRANK NICKMAN
SEATTLE

Online brokers. It appears your research for "We Rank the Online Brokers" (Oct.) omitted the most fundamental tool an investor needs: charts. I scoured the "Tools" portion of this article and only found portfolio recaps, screeners, videos and webinars. How does an investor get a sense of what the stock or ETF is doing?

TOM NIEBUHR
SAN DIEGO

EDITOR'S NOTE: We did include charts in our broker evaluations. In the Tools category, firms were scored on the number of technical indicators and time frame adjustments available in charts. In the Mobile App category, we looked for those same data points as well as whether horizontal chart viewing was available.

What constantly stuns me is how the brokers price robo advisers. Does a $100,000 account use more nanoseconds of server time than a $10,000 account? I think a robo adviser should be like a Netflix subscription—a fixed price for the services you subscribe to, not a revenue grab.

PHIL JANKE
OAK PARK, CALIF.

Politically neutral. Your magazine is the only one I know of that focuses on giving me helpful financial information without trying to tell me how to vote! I have my political opinions and don't need any help with that. But the information your magazine has provided me over the years has gone a long way toward helping me plan for and now enjoy retirement.

RICHARD B. TEDDER
TALLAHASSEE, FLA.

CORRECTION *The Red Lobster chain is no longer a subsidiary of Darden Restaurants ("Street Smart," Nov.). Darden sold Red Lobster in 2014.*

CONTACT US

Reader Feedback may be edited for clarity and space, and initials will be used on request only if you include your name. Send to Kiplinger's Personal Finance, 1100 13th St., N.W., Washington, DC 20005, or e-mail to feedback@kiplinger.com. Please include your name, address and daytime telephone number.

Q READER POLL

Have you recently done, or do you plan to do, any of the following end-of-year money moves?

For timely year-end financial moves to make now, turn to page 46.

SOURCE: POLL SURVEYED 241 *KIPLINGER'S* READERS.

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AHEAD

TOPIC A

SHOULD SHAREHOLDERS SHARE THE WEALTH?

Business leaders say firms should be accountable to customers and workers, and protect the environment, too. **BY SANDRA BLOCK**

AS THE 2020 CAMPAIGN HEATS up, you can expect to hear a lot of talk about the role of corporations in American society. Among the Democratic presidential candidates, Bernie Sanders has proposed requiring publicly traded companies—and large private companies—to give their employees at least 45%

ILLUSTRATION BY OLIVER WEISS

of the seats on their boards. Democratic candidates also want to raise the tax rates corporations pay and require them to play a greater role in addressing climate change.

But as the rhetoric intensifies, it's worth noting that one of the salvos in this debate came from a surprising source: big businesses themselves. In August, the Business Roundtable, an organization made up of the chief executives of the largest U.S. companies, said that the purpose of a corporation is no longer limited to advancing the best interests of its shareholders. Instead, the chief executives said, corporations should take into account the interests of multiple stakeholders, including employees, customers, and the communities in which they do business.

> CEOs work to generate profits and return value to shareholders, but the best-run companies do more. They put the customer first and invest in their employees and communities. In the end, it's the most promising way to build long-term value.
>
> **- TRICIA GRIFFITH, CEO OF PROGRESSIVE CORP. AND SIGNER OF BUSINESS ROUNDTABLE STATEMENT**

The statement represents a sharp turnaround from 1997, when the Business Roundtable held that the principal objective of a business should be "to generate economic returns to its owners." Under pressure from corporate raiders to increase investment returns, companies laid off thousands of employees, merged with competitors, and took other steps to juice their stock prices. Critics said the pressure to perform led chief executives to focus on hitting short-term quarterly earnings targets, often at the expense of other stakeholders as well as long-term returns.

But some worry that the Business Roundtable's new philosophical tilt will make chief executives less accountable to their shareholders, who include millions of 401(k) plan holders who are counting on investment returns to provide retirement income. The Council of Institutional Investors, which represents pension funds, says asking corporations to be accountable to everyone means "accountability to no one." Other critics argue that the Business Roundtable statement lacks specifics, isn't legally binding and is basically just good public relations. Ben and Jerry's, Patagonia and 30 other "B Corporations"—companies that have received a social responsibility "seal of approval" from a nonprofit group—took out an ad in the *New York Times* calling on the Business Roundtable members to, well, put up or shut up.

The Business Roundtable has affirmed its commitment to capitalism and the long-term interests of shareholders. But it also offered some specific proposals that could give free-market purists pause. For example, the executives said they believe the federal minimum wage of $7.25 is too low, adding that Congress "can raise the federal minimum wage in a way that protects our strong job market."

Values investing. Some of the critiques of the Business Roundtable's position are similar to those levied against socially responsible mutual funds and exchange-traded funds. Companies—and fund managers—should make as much money as possible for shareholders and investors, who can make their own decisions about the causes they want to support, the argument goes. But supporters of funds that specialize in sustainable investing point to a growing body of evidence that suggests you don't have to sacrifice returns to invest in companies that align with your values. In its October "Global Financial Stability Report," the International Monetary Fund said its staff analysis found that the performance of socially responsible funds was comparable to that of traditional stock funds.

REAL ID

LICENSE TO FLY

If you've been to the airport recently, you may have noticed signs asking, "Does your ID have a star?" If it doesn't, you may want to schedule a visit to your local Department of Motor Vehicles.

Beginning in October 2020, many travelers will need what's known as a Real ID–compliant license to fly domestically. After the September 11, 2001, terrorist attacks, Congress passed legislation designed to create universal standards for driver's licenses and other sources of identification. But with the deadline less than a year away, the U.S. Travel Association estimates that 99 million Americans lack a Real ID–compliant driver's license or other acceptable identification.

State legislatures have passed laws to bring their DMVs up to speed on the new standards, but the process hasn't always gone smoothly. Millions of Californians who thought their licenses were compliant have been told to provide more information to prove residency.

If you don't already have a Real ID, the Transportation Safety Administration recommends going to the DMV early in the year to avoid long lines. If you don't get a Real ID by the deadline, a valid passport is sufficient to get you through security checkpoints. FedEx and RushMyPassport, a company specializing in expedited passports, recently announced a partnership to streamline the application process. You'll have to pay the government fee of $145, plus additional costs that vary based on how quickly you need your passport. **RIVAN STINSON**


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Saving is an ambition. Aim higher.

INTERVIEW

THE NEW UBER LAW'S RIPPLE EFFECT

Independent contractors across the U.S. could become eligible for employee benefits.

California recently passed Assembly Bill 5, which reclassifies a swath of independent contractors, including gig economy workers, as employees. The landmark legislation could change the employment status of more than 1 million Californians. Opponents say the law could negatively affect a wide range of employers, from small churches to wineries. We asked Lindsey Cameron, an assistant professor of management at the Wharton School of the University of Pennsylvania, to discuss what this law could mean for employees, employers and consumers.

Why is California's Assembly Bill 5 so controversial? The status quo is working for a lot of companies. They save money by keeping workers as contractors, and they have the flexibility to hire people when they need them and let them go with no fuss or severance package. Most people rely on their employer for health insurance, so hiring independent contractors lets companies save costs.

How would being treated as an employee benefit independent contractors? Employees get benefits that contractors don't: a minimum wage, health insurance, sick leave, overtime pay, workers' comp, unemployment insurance and protection by the Equal Employment Opportunity Commission against discrimination. Employers also contribute to a portion of payroll taxes by putting money into Social Security and Medicare on your behalf. Contractors need to pay the entire payroll tax. This law could also be beneficial to California's government, which loses an estimated $7 billion a year in unpaid income taxes and more from independent contractors.

Are there disadvantages for contractors? Some independent contractors—particularly those who are highly skilled and command higher wages—may prefer to not be considered employees. Plus, there are some caveats in the law with creative professionals (for example, writers and artists) and how their intellectual property will be protected if they are considered an employee.

Who will this law affect? The law clarifies who is a contractor and who is not, based on, among other things, whether a worker is engaged in the same business as the hiring entity. It's known as the "Uber Law," but it has a much larger effect beyond ride-hailing drivers. The law could affect home health care workers, truckers, interpreters, freelance writers, cleaners and more. Some professions are exempt from this law, including doctors, dentists, psychologists, insurance agents, stockbrokers and lawyers. These categories of contractors work directly with their customers to set the price and are considered higher-paid professionals. Other industries and companies are lobbying for exemptions.

What will happen to the gig economy, which is dominated by companies that depend on independent workers to get the job done? My guess is either prices will go up for consumers or the quality of service will be reduced, because the law raises labor costs. Companies may take on fewer workers because they have to pay them more.

Will other states follow California's example? The law is set to go into effect in California in January. I don't see the law in California being enacted in every state, but it could lead some states to adopt similar laws. AB 5 allows a city to file an injunction against a company if it is violating the law, so similar laws may be implemented more at the city level rather than state. Several cities, including New York City, Portland and Seattle, are discussing or have already implemented some worker protections for ride-hailing drivers. **MIRIAM CROSS**

PHOTOGRAPH BY SHIRA YUDKOFF

SANTA'S HELPERS

A PRESENT FOR PROCRASTINATORS

Retailers expand options for fast shipping, but it may not be free.

THANKSGIVING IS LATE THIS year, which means shoppers will have less time to cruise the malls. But if you're getting a late start, you have reason to rejoice: More retailers than ever are offering fast and speedy shipping. *The Kiplinger Letter* forecasts that online purchases will surge 24% during this year's holiday season from a year earlier.

But there's a catch: You'll have to pay an annual fee at many retailers to take advantage of the fastest delivery. Amazon recently announced that Prime members, who pay $119 a year, will be able to receive their orders in one day instead of two. (Keep in mind that you can still snag free shipping from Amazon on many purchases of $25 or more without a Prime membership. Delivery on those orders usually takes five to eight days, though.) Target recently announced that it will offer free, same-day delivery on orders of $35 or more made via Target.com for shoppers who buy a $100 membership (nonmembers pay $10 per order). Macy's has announced plans to test free, same-day delivery for orders of $75 or more.

Need groceries for your holiday festivities? Walmart has announced plans to expand its same-day grocery delivery service to more than 1,600 stores by year-end for subscribers who pay $98 a year. Walmart is also testing a service that will allow customers to have fruit, milk and other perishable items delivered directly to their refrigerators. The cost is $20 a month (plus the cost of groceries). Kroger is testing 30-minute grocery delivery in some markets for $5.95 per order.

Shoppers will also likely see more seasonal offers for free, fast shipping during the holiday season, says Rachel Dalton, a director at Kantar Consulting. But you will still need to leave some lead time when buying gifts or placing other time-sensitive orders. Amazon and big brick-and-mortar retailers are in a good position to get orders in on time, says Dalton. But retailers who haven't beefed up behind-the-scenes systems—including supply chain and inventory tracking—may not be able to manage the volume and deliver on their shipping promises.

KAITLIN PITSKER

TIGHTEN YOUR BELT

A STINGY RAISE FOR SOCIAL SECURITY RECIPIENTS

LOW INFLATION HAS KEPT A LID ON PRICES for everything from gas to computers, but retirees will see the downside when they receive their January Social Security payment. Beneficiaries will receive a 1.6% cost-of-living increase in 2020, down from a 2.8% increase in 2019. That works out to an increase of about $24 a month for the average retired worker.

Social Security bases its annual cost-of-living adjustments on the Labor Department's third-quarter consumer price index, which was weighed down by a 6% drop in gas prices from a year earlier.

Advocates for seniors say the index doesn't reflect the real cost of living for many retirees. Retirees spend a large percentage of their income on health care, particularly prescription drugs, and those costs been rising at a much faster clip than overall inflation, says Mary Johnson, Social Security and Medicare policy analyst for the Senior Citizens League. Social Security cost-of-living adjustments have been growing slowly for a decade, including three years when seniors received no increase in benefits at all, Johnson says. That's unlikely to change anytime soon. Kiplinger forecasts that Social Security beneficiaries will receive a cost-of-living increase of about 2% in 2021. **SANDRA BLOCK**

CALENDAR
12/2019

FRIDAY, DECEMBER 13
If you haven't taken your required minimum distribution from your IRA or 401(k) for the year, put in your order now so your financial institution has time to process it by year-end. In the year you turn 70½, you have until April 1 of the following year to take your first RMD, but after that, you must take your RMD by December 31. Otherwise, you could end up paying a penalty of 50% on the amount you should have withdrawn.

SUNDAY, DECEMBER 15
Today is the last day of open enrollment for those who need to buy an individual health insurance policy on their state's health insurance exchange (the last day of open enrollment for Medicare was December 7). To find a link to your state's plan, go to www.healthcare.gov/get-coverage.

SATURDAY, DECEMBER 21
The Saturday before Christmas is expected to be one of the busiest travel days of the year, which means there's a good chance your flight could be delayed. If you have a PenFed Pathfinder Rewards card, which has no annual fee, or a Bank of America Premium Rewards card ($95), you can use your $100 yearly airline incidentals credit to buy a pass to the airport lounge. Other credit cards that offer lounge memberships as a perk include the Chase Sapphire Reserve ($450) and American Express Platinum ($550).

▲ TUESDAY, DECEMBER 31
If you expect to itemize on your tax return, you have until midnight to make a deductible charitable contribution. For more money moves to make before 2019 becomes history, go to page 46.

DEAL OF THE MONTH
For deals on cookware, glassware or small kitchen appliances, shop during the two weekends following Black Friday. Big-box stores will offer discounts of 20% to 40%, according to Bospar.

ISTOCKPHOTO.COM (2)

ASK KIP

Health Plans for Early Retirees

Finding coverage until Medicare kicks in isn't hard, but policies can be pricey.

My wife and I plan to retire at age 55. Our main concern is what to do about health care until we are eligible for Medicare. What are our options?

M.S., ASHBURN, VA.

As early retirees, you'll have several options for health insurance coverage until you qualify for Medicare at age 65. The biggest challenge is finding coverage that's affordable.

For example, most early retirees can keep their coverage for up to 18 months under COBRA, the federal law that requires companies with 20 or more employees to let workers remain on their health plan. But under COBRA you'll have to pay the full premium. That can make sense for retirees who need to fill a short gap in coverage, or if you're undergoing treatment and other policies available to you wouldn't cover your current doctors or providers.

Many early retirees buy a policy through their state's health insurance exchange (see www.healthcare.gov). The policies can be pricey, but insurers can't deny you coverage or charge you more if you have a preexisting condition. And many retirees qualify for tax credits to help cover the cost of the premiums. To be eligible for a subsidy, your income cannot exceed 400% of the federal poverty level ($49,960 for an individual or $67,640 for a couple in 2020).

You can also buy a policy directly from an insurer or through an agent (see www.nahu.org). Off-exchange policies are not eligible for tax credits, but some insurers offer off-exchange policies with different premiums, cost-sharing or provider networks than their on-exchange versions. These plans can be a good option if you don't qualify for a subsidy and are looking for specific features.

IRA contributions. I'm a retired real estate agent, and I manage rental properties. Does my rental income count as having a job for the purpose of contributing to an IRA?

R.L., CARMICHAEL, CALIF.

No, earnings and profits from property don't count. Contributions to traditional and Roth IRAs must come from "active" income—that is, compensation from working. It can include wages, salaries, tips, professional fees, bonuses and other amounts you receive for providing personal services, as well as commissions and self-employment income. If you work for salary or wages, you'll receive an IRS Form W-2 for qualifying income; if you're an independent contractor or self-employed, you'll receive a Form 1099 MISC.

Rental income is considered passive income—that is, "money made on money," says Ed Slott, a CPA and IRA expert (www.irahelp.com). He suggests a couple of workarounds: You could form your own property-management company as a corporation or limited-liability company and become its employee. Then you could have a solo 401(k) (see www.irs.gov/retirement-plans/one-participant-401k-plans). Or, if you file a joint return with your spouse and your spouse has earned income, you could each contribute to your own IRAs—as long as your spouse earns enough income to cover each of your contributions. In that case, you can use your rental income to fund your spousal IRA.

Parents' rights. Are there legal documents parents need to help a college student living away from home?

S.K., EAST LANSING, MICH.

Many parental rights disappear once a child reaches adulthood, which is age 18 in most states. But with a few documents, parents can still be involved in their student's medical and financial affairs. Students need to fill out a HIPAA authorization form, which will allow parents to receive information about their health and treatment. A medical power of attorney allows students to designate someone to make medical decisions for them if they become incapacitated and can't make medical decisions.

It's also a good idea to put in place a durable power of attorney, which allows students to authorize someone to handle financial or legal matters on their behalf. And students who fill out the Family Education Rights and Privacy Act waiver give permission for parents to see their academic record. ■

HAVE A QUESTION? SEND IT TO ASKKIP@KIPLINGER.COM.

PATRICK GEORGE

INVESTING

Use our guide to pick the standout investments in your retirement plan.

BY NELLIE S. HUANG

HOW GOOD ARE THE FUNDS IN YOUR 401(k) PLAN? Choose wisely and you could celebrate your retirement with a café au lait on an around-the-world cruise. Choose unwisely, and you may have to settle for your local Starbucks.

Say you socked away $10,000 a year between 2009 and 2018. For simplicity's sake, we'll assume you made a lump-sum investment at the start of every year. If you put all of the money in Fidelity Growth

ILLUSTRATIONS BY JOEL FELIX

Company fund, you'd have $229,000 in your account at the end of the period. But if you chose Vanguard Windsor II, which had a so-so decade, your balance would be $165,000.

Every year, with the help of financial data firm BrightScope, which ranks 401(k) plans, we look at the mutual funds with the most assets in 401(k) and other defined-contribution plans, including 403(b) plans. In the table on pages 28 and 29, we list the 75 biggest. (For a list of the biggest 100 funds, go to kiplinger.com/links/popularfunds.) To help you make the best choices, we analyze the actively managed funds among the 75. Many of those are target-date funds from the same series, which we analyze as one offering. Most of the funds are solid, and some of them are standouts; only a handful are disappointing. In the end, we recommend 28 funds, described below.

We didn't weigh in on the index funds that rank high in employer retirement-plan assets, because the art of choosing a good index fund rests on three simple questions: Which index do you want to emulate? How well has the fund done in matching that index? How much does the fund charge? We have no problem with the funds listed in the table.

Assessing an actively managed fund, however, is trickier. We analyzed each active fund's long-term returns and year-by-year performance. We looked past raw results to examine each fund's volatility and how it fared in difficult markets. We also considered manager tenure and fees, among other things.

We've organized our favorite active funds by broad asset class: U.S. stock funds, foreign stock funds, hybrid funds (which hold stocks and bonds), bond funds and target-date funds. The data for the funds we highlight are for the Investor share class or A share class, typically the most widely available; the classes offered in your 401(k) plan may differ. All returns and data are through September 30.

American Funds Washington Mutual Investors

Symbol AWSHX, expense ratio 0.59%
Best for: Risk-averse investors

Discipline governs this growth-and-income fund. Among the numerous investing rules that Washington Mutual's managers must abide by: Constituents of Standard & Poor's 500-stock index must make up 90% of the fund, and companies must have a steady history of dividend payments. The fund's quirky approach holds it back from the kind of outsize returns that some large-company funds can deliver, but Washington Mutual is a decent performer. Over the past decade, its 12.8% annualized return beat 72% of its peers (funds that invest in large companies with both growth and value characteristics). But it trailed the 13.2% gain in the S&P 500. The fund yields 1.68%.

Dodge & Cox Stock

DODGX, 0.52%
Best for: Patient, buy-and-hold investors

Ten Dodge & Cox Stock managers analyze companies with a three- to five-year time horizon in mind. They steer toward well-established firms with attractive long-term prospects and stocks that trade at bargain prices. At times, their investment thesis can take years to play out, and that can be a drag on returns. But patient investors will find that the fund typically delivers over the long haul. Over the past decade, Stock's 12.0% annualized return beat 83% of its peers (funds that invest in value-priced large companies).

Fidelity Blue Chip Growth

FBGRX, 0.80%
Best for: High-octane-growth investors

Fidelity Blue Chip Growth beat the S&P 500 in eight of the past 11 calendar years, including so far in 2019. Of course, the market has lately favored the kinds of businesses the fund prefers: fast-growing firms with dominant franchises. Manager Sonu Kalra mixes high-quality, established firms with nascent companies in his nearly 300-stock portfolio. At times, he holds stakes in private firms before their initial public offering, such as Uber. And he has been known to make big bets if he feels strongly about a firm's prospects. Alphabet, Amazon.com and Apple made up nearly 20% of the fund's assets recently.

Fidelity Contrafund

FCNTX, 0.82%
Best for: Growth investors in search of steady results

Over the course of nearly three decades at the helm, Fidelity Contra-

fund manager Will Danoff has delivered dazzling results, helping longtime shareholders fund cushy retirements. Danoff hunts down companies with fast-growing earnings. When he likes a company, he holds on. The fund's 32% annual turnover implies an average holding period of roughly three years. Berkshire Hathaway, a top holding, has been in the fund since 2002. Contrafund is enormous, with $115 billion in assets, but that hasn't held Danoff back. Over the past five years, the fund gained 11.6% annualized, beating the 10.8% return of the S&P 500.

Fidelity Growth Company

FDGRX, 0.85%

Best for: Aggressive-growth investors prepared for a bumpy ride

If Fidelity Growth Company is available in your 401(k) plan, buy shares. The fund is a winner, and it is closed to new investors outside of 401(k) plans. Manager Steve Wymer hunts for firms with good long-term growth prospects. Many of the stocks it holds are names you know: Lululemon Athletica, Salesforce.com, Visa. But nearly 25% of the fund's assets are invested in smaller companies. That adds to the fund's volatility. Even so, Wymer's 15-year record—a return of 12.4%, on average, per year—beats the S&P 500 and 97% of all funds that invest in large, growing companies.

Fidelity Low-Priced Stock

FLPSX, 0.52%

Best for: Investors looking for a satellite position to spice up core holdings

At Fidelity Low-Priced Stock, prospective stocks must trade for $35 or less. Lead manager Joel Tillinghast and five comanagers use the low-price bar to find good values among small companies and out-of-favor larger firms. The fund has an outstanding long-term record under Tillinghast. But since 2011, when the first comanagers came aboard, Low-Priced Stock has lagged the broad market. Even so, this fund is worth a look. Tillinghast is a master stock picker. The fund is unique and not easily compared with a benchmark. It holds shares in firms of all sizes, for starters, and it has 38% of its assets invested in foreign stocks.

Harbor Capital Appreciation

HCAIX, 1.03%

Best for: Aggressive-growth investors

Managers at Harbor Capital Appreciation look for fast-growing firms in good financial health that dominate their businesses (think Amazon.com, Mastercard and Salesforce.com). Four managers run the fund, but Spiros "Sig" Segalas, a veteran stock picker, anchors the team. You should expect above-average volatility, but the reward is above-average returns. Over the past five years, Capital Appreciation was 9% more volatile than the average large-company growth fund, but it's annualized return was 11% better than that of its peers.

Invesco Diversified Dividend

LCEIX, 0.76%

Best for: Investors looking for a low-risk dividend-stock fund

A quartet of managers led by Meggan Walsh look for financially healthy companies with a strong presence in their industry that can sustain and increase dividend payouts over time. This fund probably won't beat the S&P 500, but it will keep up. Perhaps more important to some investors, it tends to hold up better in down markets. In 2008, Diversified Dividend lost 26.8%—more than 10 percentage points less than the S&P 500. But over the past decade, the fund lagged the S&P 500, delivering an 11.0% annualized return, compared with 13.2% for the index. You won't see Amazon.com, Apple or even Microsoft in this 70-stock portfolio. Recent top holdings included the Hartford Financial Group, General Mills and Entergy, an energy company. The fund yields 2.34%.

T. Rowe Price Blue Chip Growth

TRBCX, 0.70%

Best for: Aggressive investors with a long time to invest

Only a few actively managed funds consistently beat the broad stock market. T. Rowe Price Blue Chip Growth—a member of the Kiplinger 25, a list of our favorite actively managed mutual funds—is one of them. Manager Larry Puglia favors established companies that boast strong free cash flow (cash profits after capital outlays), above-average earnings growth and smart executives at the top. A chunk of the fund's $64 billion in assets sits in technology, health care and consumer-oriented firms. The portfolio holds roughly 125 stocks and has a turnover rate of 27%, which is half that of its peers (funds that invest in large, growing companies).

T. Rowe Price Growth Stock

PRGFX, 0.66%

Best for: Investors in search of growth without sacrificing stability

T. Rowe Price Growth Stock is a solid large-company growth fund managed by Joe Fath, who took over in 2014. Since then, the fund has outpaced its large-growth peers and the S&P 500 with a 12.0% annualized return. Fath likes to keep a portfolio of roughly 80 stocks. He favors firms with strong cash flow and above-average earnings growth, but he also likes firms that can withstand an economic

slowdown thanks to good earnings momentum or a solid, lucrative niche in their industry. At last report, Amazon.com, Alphabet and Microsoft were among the fund's biggest holdings.

T. Rowe Price Institutional Large Cap Growth Fund

TRLGX, 0.56%

Best for: Investors with long time horizons

T. Rowe Price Institutional Large Cap Growth has a steep, $1 million initial investment requirement for most investors. But 401(k) investors who have the fund in their plan can buy shares with no minimum investment. Manager Taymour Tamaddon takes an active role. In the second half of 2018, he "inched up" his cash position, says Morningstar fund analyst Katie Rushkewicz Reichart, which helped cushion the fund a little during the bear-like correction of the S&P 500. Tamaddon is relatively new to the fund (he took over in early 2017), but he has performed swimmingly so far. The fund has returned 20.8% annualized since he came on, far ahead of the 13.2% return of the S&P 500.

T. Rowe Price Mid-Cap Growth

RPMGX, 0.75%

Best for: Investors seeking exposure to growing midsize companies

Midsize-company stocks don't get as much attention as large- and small-company stocks do, but T. Rowe Price Mid-Cap Growth is hard to overlook. Over the past one-, three-, five- and 10-year periods, the fund has outpaced the S&P 500 and the S&P Mid-Cap 400—with less volatility than the average midsize-company stock fund. Manager Brian Berghuis likes fast-growing companies that trade at a reasonable price. At last report, medical-device makers Cooper Cos. and Teleflex, and Ball Corp., known for its ubiquitous jars, were among the biggest holdings. The fund is closed to new investors, but this rule doesn't apply if the fund is in your 401(k) plan.

Vanguard Equity-Income

VEIPX, 0.27%

Best for: Stock investors looking for a smooth ride

Consistency is Vanguard Equity-Income's hallmark. Over the past three, five and 10 years, Equity-Income, a Kip 25 member, has delivered above-average returns with below-average risk relative to its peers (funds that invest in large, bargain-priced companies). A focus on dividend payers helps. So does having the same managers in place for more than a decade. Wellington Management's Michael Reckmeyer runs two-thirds of the fund's assets; Vanguard's in-house stock-picking group oversees the rest. Together, they manage a portfolio of about 200 companies—including JPMorgan Chase and Verizon Communications. The fund yields 2.88%.

Vanguard Primecap

VPMCX, 0.38%

Best for: Aggressive investors in for the long haul

Vanguard Primecap is a top choice among retirement savers, and for good reason: The large-company stock fund, which is closed to new investors outside of 401(k) plans, is a stalwart. Though the fund's performance over the past 12 months lags its peer group, we think that's an aberration. Over the long haul, this fund has been a star. Its 15-year annualized return beats that of the S&P 500. Five stock pickers from Primecap Management look for out-of-favor companies that have a catalyst for growth. And they'll hold a stock for as long as the company is performing well—typically for more than a decade. Adobe and Southwest Airlines shares have been in the fund since the early 1990s.

American Funds American Balanced

ABALX, 0.57%

Best for: Conservative investors with both preservation of capital and growth in mind

Like most so-called balanced funds, American Funds American Balanced typically invests 60% of its assets in stocks and 40% in bonds. The 10-manager team can dial the fund's risk up or down, depending on market conditions, but at any given time, the fund must have at least 50% in stocks or at least 25% in bonds. At last report, American Balanced held 62% in stocks, 33% in bonds and 5% in cash. On the stock side, the managers focus on blue-chip, dividend-paying companies, including Home Depot and Intel. Treasuries, government-guaranteed mortgage debt and investment-grade corporates fill the bond side. The fund yields 1.57%.

Fidelity Balanced

FBALX, 0.53%

Best for: More-moderate-risk investors looking for an all-in-one, 60% stock, 40% bond portfolio

Reasonable risk-taking is part of Fidelity Balanced's mandate. The fund invests 60% of its assets in stocks for growth and 40% in bonds for stability and income. Balanced has been a tad more volatile than its peers (funds that invest 50% to 70% of assets in stocks), but it makes up for it

in long-haul returns. The fund's 10-year annualized return ranks among the top 10% of its peer group. Robert Stansky is the fund's maestro. He makes the broad calls on how much of the portfolio sits in stocks and bonds. A team of sector specialists picks the stocks. Bond guru Ford O'Neil steers the debt side. The fund yields 1.52%.

Vanguard Wellington

VWELX, 0.25%

Best for: Investors looking for a low-cost fund that holds stocks and bonds

Vanguard Wellington, a member of the Kiplinger 25 since 2016, holds about two-thirds of the fund's assets in stocks—mostly large-company, dividend-paying stocks—and one-third in high-quality bonds. Over the past 10 years, Wellington beat 92% of its competitors (funds that allocate 50% to 70% to stocks). Some recent small shifts among the managers, who work at the Boston-based firm Wellington Management, have us watching the fund more closely. But the super-low expense ratio is a big draw, and the fund yields a robust 2.41%.

American Funds New Perspective

ANWPX, 0.75%

Best for: Investors who prefer all-in-one exposure to U.S. and foreign stocks

American Funds New Perspective invests roughly half its portfolio in U.S. stocks and the rest in foreign shares. That's been a good formula for world funds lately, given the extraordinary bull market in U.S. stocks and the relatively lackluster returns abroad. In nine of the past 11 calendar years, including so far in 2019, New Perspective has returned more than the average for its competitors (funds that invest in large firms all over the world). Seven managers divide management of the bulging, $89 billion in assets among them. Long-term growth is the main objective, but the fund's secondary aim is to invest in companies that have the potential to pay dividends in the future.

Dodge & Cox International Stock

DODFX, 0.63%

Best for: Buy-and-hold investors

The past decade hasn't been good for international stocks, and bargain-priced shares fared even worse. But Dodge & Cox International Stock, which invests in foreign firms trading at discount prices, has outpaced its benchmark, the MSCI EAFE index, in six of the past 11 calendar years. The fund's value tilt makes it a tad contrarian at times: European financial stocks and health care shares make up a big piece of its 88-stock portfolio. And the fund's volatility is high, so investors should be willing to hang on when the ride gets bumpy.

Invesco Oppenheimer Developing Markets

ODMAX, 1.26%

Best for: Investors seeking emerging-markets exposure

Despite a weak decade for emerging-markets stocks, manager Justin Leverenz has delivered a 5.5% annualized 10-year return, which wallops the 3.4% return of the MSCI Emerging Markets index. The fund tops its peers fairly consistently, too. Of course, stashing one-fourth of the fund's assets in developed-country stocks has helped. But two such holdings, Glencore, a British–Swiss mining company, and French luxury goods behemoth LVMH Moet Hennessey Louis Vuitton, include businesses that log significant growth in emerging markets. The fund is closed to new investors, but that rule doesn't apply to 401(k) investors.

Vanguard International Growth

VWIGX, 0.45%

Best for: Investors looking for exposure to international stocks

Every diversified portfolio needs exposure to foreign stocks, and Vanguard International Growth is a worthy choice. The fund beat its benchmark, the MSCI All Country World Index ex USA index, in all but two calendar years since the start of 2008 (2014 and 2016). Just be prepared for some volatility. International Growth is packed with fast-growing tech firms—more than the typical foreign large growth stock fund. But in the past, the reward has been worth the risk with this fund.

If you're at a loss for what to invest in, a target-date fund is a great place to start. "It's an excellent choice," says Maria Bruno, head of U.S. wealth planning research at Vanguard. "Target-date funds are doing what they set out to do: providing a prudent asset allocation plan in a broadly diversified fund at a low cost."

Most employers and many retirement savers agree. More than 80% of all 401(k) plans offer target-date funds, according to a 2019 report from BrightScope and the Investment Company Institute, and 21% of all 401(k) assets are invested in target-date funds.

A target-date fund basically allows you to put your retirement saving and investing on autopilot. Simply choose a fund with a target year that's closest to the time you plan to retire, and sock away your 401(k) savings in it. The experts who run the fund will manage your investments, gradually shifting your money into a mix of assets that are appropriate for your time horizon. With 30 years to go before you stop working, the fund will hold most of your assets in stocks; as you near the target year, the stock-bond mix will automatically shift to a more conservative, bond-heavy blend. Some funds continue to adjust well after you retire, shifting the asset mix for another decade or more.

AMERICAN FUNDS

Only one target-date fund from American Funds, 2030 TARGET DATE RETIREMENT, has enough 401(k) assets to merit a spot among the top 75 funds. But the series overall is solid. Its glide path—the prescribed blend of stocks, bonds and cash as the fund moves closer to its end point—starts conservatively, with 85% in stocks (mostly in large, growing U.S. firms) for investors with 40 years left in the workforce. That's all part of the plan, says Toni Brown, who leads the retirement strategy group at American Funds. "We intentionally have a relatively conservative position at the beginning so that in a downturn, there's less volatility for younger investors." The 2030 fund holds 65% in stocks, 28% bonds and 7% cash. The series continues to shift allocations for another 30 years after the target year, when it ends with roughly 30% in stocks (mostly dividend-paying) and the rest in bonds and cash.

FIDELITY FUNDS

Five years after Fidelity revamped its FIDELITY FREEDOM target-date fund series—creating new funds, assigning some of the firm's best stock pickers and tweaking the asset allocations—the funds are starting to turn in improved long-term results. Over the past five years, five of the seven Freedom funds on this roster posted average annualized returns that rank among the top third of their peer group. The Freedom glide path is decidedly moderate in risk. For investors 20 or more years from retirement, it starts with 86% in stocks, 6% in bonds and 8% in cash. After retirement, Freedom funds continue to shift. At last report, the 2005 Freedom fund held 23% in stocks, 55% in bonds and 22% in cash.

T. ROWE PRICE

It's little wonder that the T. ROWE PRICE RETIREMENT series of target-date funds is popular. They have performed spectacularly, thanks to an above-average slug of assets invested in stocks throughout the glide path. Over the past five and 10 years, these funds have posted annualized returns that rank among the top 10% of their respective peer groups. Some investors may find the T. Rowe Price Retirement glide path a tad aggressive. For example, the 2035 fund, geared for workers who are roughly 50 years old today, holds 79% of assets in stocks; its typical peer holds 74%. Even at retirement, the T. Rowe Price Retirement funds typically hold about 55% of their assets in stocks; the average 2020 target-date fund holds 41% in stocks. The Retirement target-date series operates on a 70-year plan: You save for 40 years, and then you spend for 30 years. That

means the Retirement target-date series shifts its blend of stocks and bonds for three decades past its target year.

VANGUARD

There's a lot to like about VANGUARD TARGET RETIREMENT funds. They are simple: Each target-date fund holds just four to five index funds. They are cheap: The Investor share class of Vanguard's retirement-geared funds have expense ratios that range between 0.12% and 0.15%. (Chances are your retirement plan offers an even lower-cost share class of the fund.) They are moderately positioned: Target Retirement 2035, the fund for investors who expect to retire in 15 years or so, holds 75% in stocks and 24% in bonds. That's about par for the peer group. And each fund boasts a solid long-term track record. Over the past 10 years, nearly all of the funds delivered annualized returns that beat 80% or more of their target-date-fund peers.

BOND FUNDS

Dodge & Cox Income

DODIX, 0.42%

Best for: Income investors

A high rate of income is this fund's main objective, and it delivers. The fund's 3.72% yield surpasses the 2.2% average yield for intermediate-term core bond funds. The fund's team of nine managers currently keeps its portfolio relatively balanced between government-guaranteed debt, including mortgage-backed securities and Treasuries, and high-quality corporate bonds. Low yields may crimp near-term fixed-income returns, the managers say, but they remind investors that bonds play a vital defensive role in a diversified portfolio. The fund's 15-year annualized return ranks among the top 26% of its peer group.

Metropolitan West Total Return Bond

MWTRX, 0.67%

Best for: Income investors seeking a core bond holding

In 2016, the managers at Metropolitan West Total Return Bond grew more defensive and began to shore up the fund with high-quality bonds—Treasuries, as well as mortgage bonds and bundles of student loans backed by Uncle Sam. They were early, which hurt the fund's returns, as safer fare lagged and riskier debt did better. The fund's five-year annualized return falls just short of its benchmark, the Bloomberg Barclays U.S. Aggregate Bond index. But over the past 10 years, the fund beat its bogey as well as 84% of its peers (funds that invest in intermediate-term bonds). Recent returns have been stronger, thanks in part to a rally in Treasury bonds. The fund yields 2.08%.

Vanguard Inflation-Protected Securities

VIPSX, 0.20%

Best for: Inflation hedgers

This is a solid fund that delivers on its objective of providing inflation protection. It invests in TIPS, or Treasury inflation-protected securities. These bonds have fixed maturities and coupon rates, but the principal value adjusts with inflation. These days, however, inflation expectations are low. As a result, these types of bonds aren't paying much income, which is the fund's secondary objective. At last report, the fund yielded just 0.10%. Even so, there's always a risk that the price of goods and services will increase—or that a fear of inflation could emerge. That's good reason to have a small slice of your portfolio invested in TIPS "as ballast and a diversifier," says Vanguard economist Joe Davis.

Once you have a good sense of the standout funds in your 401(k), by all means load up on them, especially if you can balance that portfolio with investments in other accounts. Say your plan has a terrific large-company fund, such as **FIDELITY BLUE CHIP GROWTH**, but its bond-fund choices are wanting. Go all-in with Blue Chip Growth inside your 401(k) and buy a first-rate bond fund or two inside a tax-advantaged retirement account, such as an IRA or a Roth IRA.

But if your 401(k) is the only investment account you have, you must build a well-diversified mix of assets using the funds offered. Either way, here are some tips to get started.

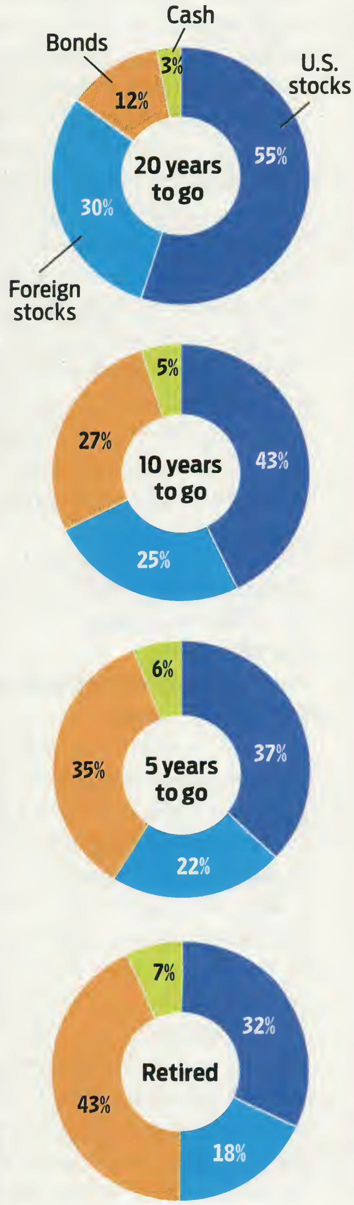
Make a plan. To divvy up your assets properly, you'll need an investment plan that sets out how much you'll hold in cash, stocks and bonds. Many 401(k) plans offer participants an online tool that can help retirement savers build a portfolio on their own. The tool asks a few questions about risk tolerance, among other things, and then slots you into a portfolio, with guidance on the percentage of stocks, bonds and cash.

Otherwise, use a target-date-fund glide path—the changing mix among cash, stocks and bonds along the 70-year life of the fund—as a guide. "It's a reasonable way to start," says Rob Williams, vice president of financial planning at Schwab Center for Financial Research. That was our tack in creating the portfolios on this page. Use them as a model—adjusting where necessary—to set up your investment plan.

Keep it simple. The typical 401(k) plan offers 27 funds. "Choice is good, but it can make things more challenging," says Schwab's Williams. If the number of choices in your plan is overwhelming, start with low-cost index funds. If you have access to the notable actively managed funds we've highlighted here, fold them in, too, making sure you're sticking within your overall investment plan of how much to hold in stocks and bonds. Whether you're choosing passive or actively managed funds, or a mix of both,

A Proper Investment Plan

Use the portfolios below as a guide to how to shift your assets over time.



SOURCES: Fidelity, Morningstar Inc.

focus on core stock funds and core bond funds that invest in a broad swath of each market to build your portfolio. Leave funds such as a technology sector fund for later, until after you have put together a well-diversified portfolio. "Those are niche and supporting funds, but they're not always labeled that way," says Williams.

Don't put all of your eggs in one basket. Be sure to include funds that invest in large, midsize and small companies, and consider funds with different investment approaches, such as growth and value. "The key to diversification is to have a bit of all of it," says Maria Bruno, head of U.S. wealth planning research at Vanguard. Otherwise you'll take on more risk than you realize. One quick fix is to buy shares in an index fund that invests in an entire market, says Bruno, such as **VANGUARD TOTAL STOCK MARKET INDEX** fund. Other firms have similar offerings.

Time horizon trumps risk tolerance. Risk tolerance and time horizon are important factors in asset allocation. But "time horizon trumps risk tolerance," says Williams. A 50-year-old investor with a high tolerance for risk may want to be 100% in stocks. But at that age, she should be scaling back on stock holdings for bonds and cash. The flip side is also true. Young, risk-averse investors with decades to invest may hold too much in cash. "There's an opportunity cost to not being in the stock market," says Bruno, and that's the risk of not having an ample nest egg when you retire.

If you're unsure, go with a target-date fund. Some critics chide target-date funds as one-size-fits-all solutions that ultimately fit few. But "age is the dominant factor" in any asset-allocation plan, says Toni Brown, head of retirement strategy at Capital Group. And target-date funds offer investors access to professionally managed portfolios. "You have your savings managed as effectively and efficiently as possible," she says. ■

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Top Choices

THE 75 BIGGEST 401(K) FUNDS

Americans have $5.2 trillion invested in workplace savings accounts, according to financial-data firm BrightScope. Most of those dollars are invested in the funds on this list, the 75 biggest in workplace retirement savings plans based on 401(k) assets under management.

			Annualized total return				
ACTIVELY MANAGED FUNDS	Symbol	Category	1 yr.	5 yrs.	10 yrs.	Expense ratio	Buy, Sell or Hold
American Funds 2030 Target Date Retire A	AAETX	Target-date	3.5%	6.8%	9.4%	0.72%	Buy
American Funds American Balanced A	ABALX	Hybrid	5.1	7.6	10.0	0.57	Buy
American Funds Europacific Growth A	AEPGX	Foreign stock	0.8	4.7	5.7	0.83	Hold
American Funds Fundamental Invs A	ANCFX	U.S. stock	0.6	9.7	11.9	0.59	Hold
American Funds Growth Fund of Amer A	AGTHX	U.S. stock	–2.3	10.6	12.4	0.62	Hold
American Funds New Perspective A	ANWPX	Foreign stock	2.6	9.4	10.3	0.75	Buy
American Funds Washington Mutual A	AWSHX	U.S. stock	5.8	9.8	12.7	0.59	Buy
Dodge & Cox Income	DODIX	Bond	9.1	3.7	4.5	0.42	Buy
Dodge & Cox International Stock	DODFX	Foreign stock	–2.7	0.6	4.9	0.63	Buy
Dodge & Cox Stock	DODGX	U.S. stock	–2.0	8.1	12.0	0.52	Buy
Fidelity Freedom 2020	FFFDX	Target-date	3.6	5.9	7.3	0.60	Buy
Fidelity Freedom 2025	FFTWX	Target-date	3.1	6.2	7.8	0.65	Buy
Fidelity Freedom 2030	FFFEX	Target-date	2.2	6.8	8.3	0.69	Buy
Fidelity Freedom 2035	FFTHX	Target-date	0.7	7.2	8.7	0.73	Buy
Fidelity Freedom 2040	FFFFX	Target-date	0.0	7.1	8.7	0.75	Buy
Fidelity Freedom 2045	FFFGX	Target-date	–0.1	7.1	8.8	0.75	Buy
Fidelity Freedom 2050	FFFHX	Target-date	–0.1	7.1	8.8	0.75	Buy
Fidelity Balanced	FBALX	Hybrid	3.7	7.5	9.7	0.53	Buy
Fidelity Blue Chip Growth	FBGRX	U.S. stock	–1.5	12.9	15.3	0.80	Buy
Fidelity Contrafund	FCNTX	U.S. stock	–1.3	11.6	13.6	0.82	Buy
Fidelity Diversified International	FDIVX	Foreign stock	1.2	4.4	5.9	0.81	Hold
Fidelity Growth Company*	FDGRX	U.S. stock	–4.5	14.0	15.9	0.85	Buy
Fidelity Low-Priced Stock	FLPSX	U.S. stock	–3.4	6.3	11.0	0.52	Buy
Fidelity Puritan	FPURX	Hybrid	0.9	7.3	9.7	0.54	Hold
Harbor Capital Appreciation Inv	HCAIX	U.S. stock	–1.2	12.3	13.8	1.03	Buy
Invesco Diversified Dividend Investor*	LCEIX	U.S. stock	8.2	7.9	11.0	0.76	Buy
Invesco Oppenheimer Developing Markets A*	ODMAX	Foreign stock	2.2	2.4	5.5	1.26	Buy
JPMorgan Mid Cap Value A	JAMCX	U.S. stock	1.4	7.3	12.1	1.24	Sell
JPMorgan SmartRetirement 2030 A	JSMAX	Target-date	3.9	6.2	8.7	0.86	Hold
MainStay Large Cap Growth A	MLAAX	U.S. stock	2.6	12.7	13.7	0.98	Sell
Metropolitan West Total Return Bd M	MWTRX	Bond	10.2	3.1	5.0	0.67	Buy
MFS Value A	MEIAX	U.S. stock	7.2	8.9	11.3	0.83	Hold
Pimco Total Return A	PTTAX	Bond	9.7	3.2	3.9	1.05	Hold
T. Rowe Price Blue Chip Growth	TRBCX	U.S. stock	2.0	14.1	15.8	0.70	Buy
T. Rowe Price Growth Stock	PRGFX	U.S. stock	2.1	13.0	14.9	0.66	Buy
T. Rowe Price Instl Large Cap Growth	TRLGX	U.S. stock	1.8	14.7	15.9	0.56	Buy
T. Rowe Price Mid-Cap Growth*	RPMGX	U.S. stock	7.1	13.2	14.9	0.75	Buy
T. Rowe Price Retirement 2020	TRRBX	Target-date	5.1	6.3	8.6	0.61	Buy
T. Rowe Price Retirement 2025	TRRHX	Target-date	4.7	6.7	9.1	0.64	Buy
T. Rowe Price Retirement 2030	TRRCX	Target-date	4.4	7.2	9.7	0.67	Buy

ACTIVELY MANAGED FUNDS	Symbol	Category	Annualized total return 1 yr.	5 yrs.	10 yrs.	Expense ratio	Buy, Sell or Hold
T. Rowe Price Retirement 2035	TRRJX	Target-date	4.0%	7.4%	10.0%	0.70%	Buy
T. Rowe Price Retirement 2040	TRRDX	Target-date	3.7	7.7	10.2	0.72	Buy
T. Rowe Price Retirement 2045	TRRKX	Target-date	3.5	7.7	10.3	0.72	Buy
T. Rowe Price Retirement 2050	TRRMX	Target-date	3.5	7.7	10.2	0.72	Buy
Vanguard Equity-Income Inv	VEIPX	U.S. stock	6.4	9.5	12.8	0.27	Buy
Vanguard Inflation-Protected Secs Inv	VIPSX	Bond	7.0	2.3	3.3	0.20	Buy
Vanguard International Growth Inv	VWIGX	Foreign stock	−2.0	7.1	7.7	0.45	Buy
Vanguard Primecap Inv*	VPMCX	U.S. stock	−2.4	11.6	14.2	0.38	Buy
Vanguard Target Retirement 2015 Inv	VTXVX	Target-date	6.1	5.3	7.3	0.13	Buy
Vanguard Target Retirement 2020 Inv	VTWNX	Target-date	5.3	6.0	8.0	0.13	Buy
Vanguard Target Retirement 2025 Inv	VTTVX	Target-date	4.9	6.4	8.5	0.13	Buy
Vanguard Target Retirement 2030 Inv	VTHRX	Target-date	4.1	6.7	8.9	0.14	Buy
Vanguard Target Retirement 2035 Inv	VTTHX	Target-date	3.4	6.9	9.3	0.14	Buy
Vanguard Target Retirement 2040 Inv	VFORX	Target-date	2.6	7.2	9.6	0.14	Buy
Vanguard Target Retirement 2045 Inv	VTIVX	Target-date	2.1	7.2	9.7	0.15	Buy
Vanguard Target Retirement 2050 Inv	VFIFX	Target-date	2.1	7.2	9.7	0.15	Buy
Vanguard Target Retirement Income Inv	VTINX	Target-date	6.8	4.6	5.8	0.12	Buy
Vanguard Wellington Inv**	VWELX	Hybrid	8.6	8.1	9.8	0.25	Buy
Vanguard Windsor II	VWNFX	U.S. stock	1.6	7.4	11.0	0.33	Sell

INDEX FUNDS	Symbol	Category	Annualized total return 1 yr.	5 yrs.	10 yrs.	Expense ratio	Buy, Sell or Hold
Fidelity 500 Index	FXAIX	U.S. stock	4.2%	10.8%	—	0.02%	Buy
Fidelity Extended Market Index	FSMAX	U.S. stock	−3.8	8.5	—	0.05	Buy
Fidelity International Index	FSPSX	Foreign stock	−1.0	3.4	—	0.05	Buy
Fidelity US Bond Index	FXNAX	Bond	10.3	3.3	—	0.03	Buy
Vanguard 500 Index Admiral	VFIAX	U.S. stock	4.2	10.8	13.2%	0.04	Buy
Vanguard Balanced Index Admiral	VBIAX	Hybrid	6.2	7.8	9.5	0.07	Buy
Vanguard Developed Markets Index Admiral	VTMGX	Foreign stock	−2.1	3.6	5.1	0.07	Buy
Vanguard Extended Market Index Admiral	VEXAX	U.S. stock	−3.8	8.5	12.4	0.07	Buy
Vanguard Growth Index Admiral	VIGAX	U.S. stock	4.5	12.2	14.4	0.05	Buy
Vanguard Institutional Index I	VINIX	U.S. stock	4.2	10.8	13.2	0.04	Buy
Vanguard Mid Cap Index Admiral	VIMAX	U.S. stock	3.6	9.2	13.0	0.05	Buy
Vanguard Small Cap Index Admiral	VSMAX	U.S. stock	−3.8	8.6	12.4	0.05	Buy
Vanguard Total Bond Market Index Admiral	VBTLX	Bond	10.4	3.3	3.7	0.05	Buy
Vanguard Total Intl Stock Index Admiral	VTIAX	Foreign stock	−1.6	3.2	—	0.11	Buy
Vanguard Total Stock Mkt Idx Admiral	VTSAX	U.S. stock	2.9	10.4	13.1	0.04	Buy
Vanguard Value Index Admiral	VVIAX	U.S. stock	3.5	9.3	12.1	0.05	Buy

BENCHMARKS	Category	Annualized total return 1 yr.	5 yrs.	10 yrs.
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX	High-quality bonds	**10.3%**	**3.4%**	**3.7%**
MSCI EAFE INDEX	Foreign stocks	**−1.3**	**3.3**	**4.9**
MSCI EMERGING MARKETS INDEX	Emerging-markets stocks	**−2.0**	**2.3**	**3.4**
RUSSELL 2000 INDEX	Small U.S. company stocks	**−8.9**	**8.2**	**11.2**
S&P 500-STOCK INDEX	Large U.S. company stocks	**4.3**	**10.8**	**13.2**

Data as of September 30. *Closed to new investors outside of 401(k) plans. **Open to new investors outside of 401(k) plans if purchased directly through the fund company. —Fund not in existence for the entire period. SOURCES: BrightScope, Morningstar

STREET SMART | James K. Glassman

What to Do in a Dangerous Market

With a global economic slowdown, political upheaval at home and volatility in the markets, you have every right to be worried about where your stock portfolio is headed. What to do? The best answer is nothing. The history of the stock market is a series of ups and downs but a strongly positive long-term trend. For example, if you owned the stocks in the Dow Jones industrial average, your portfolio would have lost more than half of its value from its 2007 peak to its 2009 trough. But after hitting bottom, your stocks would have quadrupled in less than a decade.

In addition, no matter how brilliant you may think you are, you can't time the market—that is, pick the points at which it will soar or collapse. As the late John Bogle, founder of the Vanguard Group, put it, "The idea that a bell rings to signal when investors should get into or out of the market is simply not credible. I do not know of anybody who has done it successfully and consistently."

BUY-AND-HOLD IS THE BEST STRATEGY, BUT FOR MANY INVESTORS, IT IS TOO HARD TO PRACTICE. THE SECOND-BEST STRATEGY IS HEDGING.

Buy-and-hold is the number-one strategy, but for many investors, it is just too hard to put into practice consistently. Psychology works against you. So, if you are convinced that a big decline is around the corner and want to do *something,* I have some advice: Protect yourself on the downside by giving up some of the upside. Invest some of your portfolio in things that tend to go up when stocks go down, and vice versa. This second-best strategy is called hedging.

How to zig when stocks zag. Years ago, it suddenly dawned on me that most of us, in our broad financial lives, are not hedged at all. We derive benefits from the economy and the markets only when they move in the same, positive direction. For instance, if the economy grows briskly, we can expect pay raises. The value of our home will increase, along with the value of antiques, paintings and coin collections—and certainly the value of our stocks. Remember what happened to employees of Enron when the company went bankrupt: They lost not only their jobs but considerable assets in retirement accounts heavily invested in Enron stock.

When the residential real estate bubble burst in 2008, nearly one in four U.S. homes were "under water," with debt exceeding equity. In other words, for millions of Americans, selling a home meant pocketing nothing and instead owing thousands to the bank. That was bad enough, but at the same time, people lost their jobs when unemployment hit 10%, and a typical 401(k) plan lost one-third or more of its value.

You can't hedge your job, and hedging your home is possible only by selling and renting. You can, however, hedge your stock holdings. One way is to invest in funds—called "bear," "short," or "inverse" funds—whose prices go up when the market goes down.

Hedge the market. One of the most popular is **PROSHARES SHORT S&P 500** **(SYMBOL SH, $26)**, an exchange-traded fund that invests in derivatives and other financial instruments to seek a return that is the inverse of Standard & Poor's 500-stock index. (Prices and other data, unless otherwise noted, are through September 30.) For example, last year, the large-cap benchmark lost 4.4% of its value, but the ProShares ETF gained 4.9%. Of course, inversion works the other way, too. In 2016, the S&P gained 12%, and the ETF fell 12.5%. Notice that the returns are not precisely the opposite. One reason is the expense ratio for the inverse fund, which is 0.89%; another is that the fund's financial instruments cannot produce an exact inverse result.

PROSHARES ULTRASHORT RUSSELL2000 **(TWM, $15)** has a goal of producing returns


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that are *twice* the inverse of the popular small-cap index. In 2018, the ETF returned 19.2% when the Russell fell 11%. After the 0.95% expense ratio, you would anticipate a return of about 21%. But in the world of inverse funds, you have to expect imprecision.

Buy funds that sell short. Another approach is to invest in mutual funds whose managers pick individual stocks they believe will fall, a practice known as short-selling. To short a stock, Investor A borrows shares from Investor B and then sells them immediately. Investor A hopes that the stock price will fall, so he or she can buy the shares later at a lower price, return the shares to Investor B, and pocket the difference in price. A broker handles the transaction; you don't have to find people to lend you their stock.

Shorting is not an activity for most small investors; it's not easy to spot an individual stock that's about to decline, and you can lose big if you're wrong. Still, if you believe economic trouble is at hand, you might consider short selling a stock such as Citicorp (C, $69), which could suffer serious losses to its loan portfolio, or Carnival (CCL, $44), the world's largest cruise line, whose bookings, as discretionary purchases, will almost certainly fall in a recession.

You can let an expert pick shorts for you by buying a managed mutual fund such as **GRIZZLY SHORT** (GRZZX), which was recently betting on about 80 stocks to decline, including Grubhub, General Electric and animal health care company Idexx Laboratories.

Add bonds for ballast. Another approach is simply to

balance your stocks with bonds. The two types of assets lack correlation—that is, they rarely move up and down together. For example, in 2008, the S&P 500 fell 37% while the Bloomberg Barclay's U.S. Aggregate index of U.S. government and corporate bonds rose 5.2%. Conversely, in 2013, the S&P rose 32.4% while the bond index dropped 2%. A correlation of 1.0 means that assets move in tandem, while −1.0 means that they move in completely opposite directions. A BlackRock research paper notes that correlations between stocks and bonds have been very low or negative, ranging from 0.2 to −0.8 over the past 10 years.

If you want to hedge your diversified stock holdings, choose a broad-based bond fund with medium-term maturities, such as **VANGUARD CORE BOND** (VCORX), with an expense ratio of 0.25%, or **FIDELITY INTERMEDIATE BOND** (FTHRX), which charges 0.45%.

ANOTHER APPROACH IS TO INVEST IN MUTUAL FUNDS WHOSE MANAGERS PICK INDIVIDUAL STOCKS THEY BELIEVE WILL FALL, A PRACTICE KNOWN AS SHORT SELLING.

Consider gold. This commodity also has low correlation with stocks—although in some periods, including the onset of the Great Recession, their prices have fallen together. Overall, gold's correlation with the S&P 500 is close to zero. The easiest way to buy gold is through ETFs such as **ISHARES GOLD TRUST** (IAU, $14) or **SPDR GOLD SHARES** (GLD, $139), whose prices are linked to the price of gold bullion itself. You can also buy mining stocks, such as **BARRICK GOLD** (GOLD, $17), the Toronto-based giant that also explores for copper and silver.

Don't be a "hedgehog," however. Say you have a $500,000 portfolio. If you put $400,000 into diversified stocks, then put no more than $100,000 into an S&P 500 inverse fund. A 30% decline in the market will knock your stocks down by about $120,000, but your inverse fund will rise by about $30,000, giving you a net loss of $90,000. So your portfolio declines by 18%, not 30%. If the market should *rise* by 30%, then your gains would be sliced from 30% to 18%. At a time of deep economic and political concern, that may not be a bad trade-off. ■

JAMES K. GLASSMAN CHAIRS GLASSMAN ADVISORY, A PUBLIC-AFFAIRS CONSULTING FIRM. HE DOES NOT WRITE ABOUT HIS CLIENTS. HE OWNS NONE OF THE STOCKS MENTIONED IN THIS COLUMN. HIS MOST RECENT BOOK IS *SAFETY NET: THE STRATEGY FOR DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE*. REACH HIM AT JIM_GLASSMAN@KIPLINGER.COM.

KIPLINGER DIVIDEND 15

Our Favorite Dividend Stocks

These income-paying picks clobbered the broad market over the past 12 months. BY RYAN ERMEY

WALMART IS BIG IN GROCERIES AND IS MAKING A PUSH INTO E-COMMERCE THAT SHOULD HELP THE RETAILER CONTINUE A 45-YEAR STREAK OF DIVIDEND HIKES.

INCOME INVESTORS LOVE DIVIDEND STOCKS for their regular payouts; any stock-price appreciation is just gravy. The Kiplinger Dividend 15, the list of our favorite dividend-paying stocks, delivers on the first front, yielding 3.4%, on average, compared with a 1.9% yield for Standard & Poor's 500-stock index and a 1.7% yield for the 10-year Treasury bond. What's more, over the past year, our list has slathered on the gravy, too, returning 13.6%, on average, counting dividends and price appreciation, compared with a 4.3% return for the S&P 500. (Prices and other data are as of September 30.)

Big gains don't come without some strings attached. Like many stocks that have ridden this record-long bull market, some of the names on our list appear to be richly valued now. And although dividends buttress returns when a stock's price slides, pricey stocks could take a big hit in the event of a stock market plunge. Perhaps more salient for dividend investors, major boosts in the share price diminish a stock's yield, as is the case with Blackstone Group and Realty Income—two stocks originally chosen for our list because, among other things, they historically provided yields above 4%. Although they've slipped below that bar, we're not yet ready to jettison them for performing *too* well, and we believe that their yields can return to historical averages. We're keeping an eye on them, but we're making no changes to the list at present.

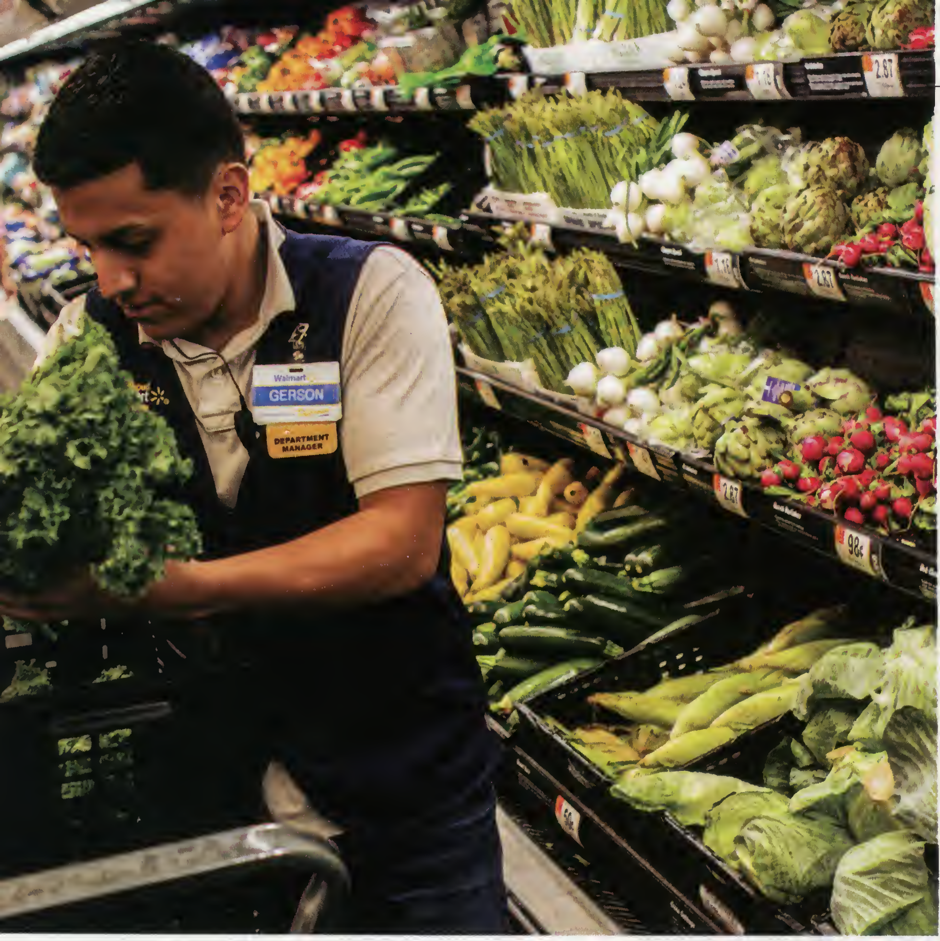
The Dividend 15 are divided into three categories: stocks with a long history of stable dividends, stocks with the potential for rapid growth in their payouts, and high yielders.

Dividend stalwarts. Stocks in this group have increased their dividend for 20 or more consecutive years. **3M** boosted its payout by 5.9% this year, surpassing the requirement by a not-so-slim margin of 40 years. The firm, which makes an array of products involving chemical coatings, sealants and adhesives, has posted disappointing earnings of late, and the stock has surrendered 20% over the past 12 months. Slowdowns in sales of consumer electronics and autos were partly to blame, says Mairs & Power Growth fund manager Kevin Earley. 3M is used to withstanding cyclical challenges like these, he says, and is restructuring to cut costs and expand margins. He expects the company to continue to raise its payout modestly as it gets earnings back on track.

AIR PRODUCTS AND CHEMICALS provides a variety of industrial gases to health care, technology, energy and industrial firms across the globe. In recent years, the firm has slashed costs, shed less-profitable businesses and invested heavily in growing markets in South America and Asia. The shares soared 36% over the past year and currently yield 2.1%. Analysts at investment research firm CFRA say Air Products has ample yearly free cash flow (cash left over after spending to maintain and expand the business) to continue boosting its payout.

EMERSON ELECTRIC is best known for its industrial automation business,

COURTESY WALMART; PROCTER & GAMBLE



providing technology, consulting and project management that helps industrial firms optimize safety, efficiency and productivity. The stock has yet to fully bounce back from a late-2018 swoon, but Emerson should continue to boost earnings (which bodes well for the dividend). CFRA expects a 9.7% bump in profits for the fiscal year that ends in September 2020, on top of an expected 6.9% gain for fiscal 2019.

While competitors are scaling back capital spending, **EXXONMOBIL** is investing heavily in new operations as part of an effort to double earnings and cash flow by 2025. It's a risky proposition, given that the oil giant's business is susceptible to swings in energy prices. But Morningstar analysts say the firm can cover spending requirements and dividends even if oil prices fall to $40 a barrel, from $54 a barrel recently. The shares currently yield a plump 4.9%.

JOHNSON & JOHNSON is embroiled in a number of high-profile court cases, including a dispute involving the company's part in the opioid crisis. But the medical megafirm has one of the healthiest balance sheets in the world. Analysts at Credit Suisse expect J&J to generate nearly $20 billion in free cash flow in 2019—almost twice the firm's projected annual dividend payment. If J&J boosts free cash flow by 10.5% per year through 2021, as analysts expect, the firm should continue its 57-year streak of annual dividend hikes.

An astonishing 33 of **PROCTER & GAMBLE**'s 65 brands, including Tide and Bounty, generate more than $500 million in annual sales each. The firm recently pared about 100 brands from its roster, allowing P&G to refocus on innovation, a move that has put the firm's earnings on an upward trajectory. The stock's 53% return over the past 12 months has eaten into the yield, which now stands at 2.4%. But P&G should continue its 63-year streak of annual dividend increases on the back of steadily growing earnings.

WALMART has found ways to compete in the face of changing consumer preferences and the growth of online retail. The retailer announced plans in May to offer free next-day shipping on online orders of $35 or more, a move that should boost e-commerce sales. Wall Street analysts don't expect much earnings growth in the fiscal year that ends in January 2020. But factoring in the firm's glut of cash, Walmart is a safe bet to continue its 45-year tradition of dividend hikes.

Dividend growth. We expect firms in this category to continue a history of ample payout hikes. Pharmaceutical firm **ABBVIE** has its challenges. For one, it's set to lose exclusivity on its blockbuster immunology drug Humira in 2023. In a bid to diversify its product lineup, in June the firm announced plans to acquire fellow drugmaker Allergan. Investors sent shares plummeting 16% following the news. They've since warmed to the union, which would bolster AbbVie's offerings with lucrative treatments such as Botox, and the stock has trended higher. Execs at AbbVie say the deal allows the firm to boost operating cash flow and maintain its dividend-growth policy.

Shares of **HOME DEPOT** trade near all-time highs, having returned an annualized 22.1% over the past five years. Over that period, the home-improvement giant has boosted its dividend even faster, at an average annual rate of 23.7%. The shares trade at 22 times estimated year-ahead earnings, compared with a multiple of 17 for the S&P 500. Analysts at investment research firm Value Line don't expect further price appreciation over the near term, but they forecast a 17% boost to the dividend in 2020.

LOCKHEED MARTIN is the world's largest producer of military weaponry and the maker of the F-35 fighter jet, which accounts for 25% of the firm's sales. The Pentagon plans to order nearly 2,500 F-35s, plus Lockheed is producing the jet for eight partner nations. Demand

for the F-35, along with increased military spending, should drive Lockheed's earnings and cash flows higher, supporting continued growth for a dividend that has increased nearly 10% per year, on average, over the past five years.

TEXAS INSTRUMENTS specializes in analog microchips that are used to digitize readings of real-world phenomena, such as sound and temperature. The firm does a good job elbowing out competitors, say Morningstar analysts, because chips are difficult to switch out once they are integrated into a product design. The firm earmarks more than 10% of sales for research and development, and TI could see an explosion of new applications in the Internet of Things, with more internet-connected devices in need of microchips. The company has hiked its dividend by 20.8% per year, on average, over the past five years.

High yield. Stocks in this group have a five-year average yield of 4% or more. Asset manager **BLACKSTONE GROUP** has $545 billion in assets under management. The firm's quarterly dividend is variable and depends on what the company earns. As of the most recent quarter, and after a huge run-up in the share price, the stock yields 3.9%, but it has averaged a 7.4% yield over the past five years. The firm recently reclassified itself as a corporation, rather than a master limited partnership. That means that investors will no longer receive a K-1 form, which can complicate taxes. The downside is that Blackstone can now scale back its dividend policy, although execs say they don't intend to do so.

ENTERPRISE PRODUCT PARTNERS is the largest MLP by market value and the most diversified, with a network of pipelines and storage depots to transport and store natural gas, oil and other petrochemicals. Though Enterprise yields less and increases its distribution more slowly than its peers, its payout is more securely funded, with enough available cash to cover 145% of its 2019 distribution. At recent prices, the stock yields 6.2%, the highest ratio on our list.

REALTY INCOME has been on a roll. The real estate investment trust returned 39.5% over the past 12 months, driving the firm's dividend yield down to 3.6%—well below its 4.4% five-year average. The company, which pays a dividend every month, manages nearly 6,000 properties in the U.S., Puerto Rico and the U.K. Most of Realty's tenants are retailers that are less susceptible to economic cycles than others, such as convenience, drug and dollar stores. CFRA analysts expect the firm to boost revenues and earnings in 2019 and 2020 through rent increases and acquisitions. The dividend is likely to go up, too: Realty Income has increased its payout for 88 consecutive quarters.

VERIZON is the largest wireless carrier in the U.S., commanding some 40% of the market, in terms of sales, for non-prepaid mobile-phone contracts. The company is investing heavily to expand its fiber network to serve wireless and business customers, and it is positioning itself to lead the industry in deploying 5G technology. Though earnings growth for the next few years is expected to be tepid, Value Line analysts are optimistic about share-price gains through the early years of the coming decade and venture that Verizon "could be a darling of the income-seeking set" thanks to its juicy 4.1% yield. ■

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THE KIPLINGER DIVIDEND 15: BY THE NUMBERS

Picking some stocks from each of the groups below will give you a mix of dividend income and growth.

Company (symbol)	Share price	Dividend yield	Annual dividend*	Consecutive years of increases	5-year dividend growth rate†	1-year total return
DIVIDEND STALWARTS Companies in this category have raised dividends for at least 20 straight years.						
3M (MMM)	$164	3.5%	$5.76	60	11.0%	–19.3%
Air Products & Chemicals (APD)	222	2.1	4.64	37	11.9	35.6
Emerson Electric (EMR)	67	2.9	1.96	62	2.7	–10.1
ExxonMobil (XOM)	71	4.9	3.48	37	4.8	–13.0
Johnson & Johnson (JNJ)	129	2.9	3.80	57	6.3	–3.7
Procter & Gamble (PG)	124	2.4	2.98	63	3.0	53.0
Walmart (WMT)	119	1.8	2.12	45	2.0	28.6
DIVIDEND GROWTH Companies in this category should continue a history of robust dividend increases.						
AbbVie (ABBV)	$76	5.7%	$4.28	6	20.6%	–15.5%
Home Depot (HD)	232	2.3	5.44	10	23.7	14.5
Lockheed Martin (LMT)	390	2.5	9.60	18	9.9	15.3
Texas Instruments (TXN)	129	2.4	3.08	15	20.8	22.6
HIGH YIELD Companies in this category have a five-year average yield of 4% or more.						
Blackstone Group (BX)	$49	3.9%	$1.90	0	–2.7%	33.7%
Enterprise Product Ptnrs (EPD)	29	6.2	1.76	21	4.1	5.6
Realty Income (O)	77	3.6	2.72	24	4.4	39.5
Verizon Communications (VZ)	60	4.1	2.46	13	2.3	17.6
INDEX						
S&P 500-STOCK INDEX		**2.0%**	**$53.76‡**	**11**	**8.2%**	**4.3%**

As of September 30. *Annualized based on the most recent dividend. †Annualized. ‡The weighted sum of dividends paid by companies in the index. SOURCES: Company websites, Morningstar, S&P Dow Jones Indices, Yahoo Finance.

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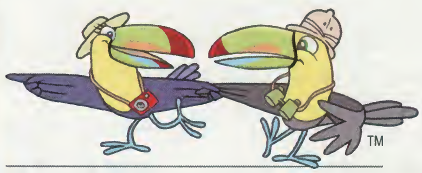

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INCOME INVESTING | Jeffrey R. Kosnett

Go Ahead, Reach for These Yields

With bank rates and bond yields collapsing again, investors are embracing unconventional income securities priced to yield 6%, 8% or even 10%. Yes, spreads between Treasury yields and the yields you get from many such investments—including high-paying partnerships, closed-end funds, mortgage real estate investment trusts, specialty lenders and business holding companies—look dangerously wide, oftentimes six or eight percentage points. In theory, such a big gap implies that a recession is in the offing and will send investors running to higher-quality assets, or even cash. High-yield investments of all kinds got slammed in 2008.

But I often dissent from the orthodox view. I believe that 2019's sinking Treasury yields, which magnify the spreads on everything else, are not a sign of economic peril. Rather, Treasury rates are puny due to the timid Federal Reserve and the $15 trillion of foreign government debt that carries negative yields. U.S. bonds have transitioned from being reserves for domestic banks and insurers and a haven for everyday savers to being the world's lockbox, a global repository where anyone can hold almighty U.S. dollars and earn a positive yield.

New ways to measure risk. Because Treasury debt is caught in these disruptive, *rule-breaking financial times*, investment pros have become open to other ways of weighing investments besides the yield spread over T-bonds. Creditworthiness and business prospects take top billing. Those can be tough for you and me to pin down, and ratings agencies can get them wrong—but the new approach produces trading and investment opportunities. "Just because something yields 8% doesn't mean it is high risk," says Christopher Zook, CEO of CAZ Investments.

Zook says that sound borrowers are paying seven percentage points above three-month cash rates to short-term lenders and private loan pools, because big banks are de-emphasizing traditional handshake corporate lending.

How can ordinary investors get in on these deals? The best ideas are in arcane areas such as commercial mortgage-backed securities, nonbank business lending and "structured credit," which packages loans, mortgages and receivables into interest-bearing securities backed by those assets. The point is that these borrowers aren't in trouble. They voluntarily pay up to borrow, and then the market's recession fears plump up yields by another full point or two. Before investing, I do insist that you scour disclosures to look mainly for secured credit and avoid dealings in oil and gas and emerging markets. A multi-industry, consumer-focused, U.S.-centric strategy is best. The following are essentially investment or holding companies, with portfolios of loans or businesses. But their stocks trade like any other.

THE BEST BETS ARE IN ARCANE AREAS SUCH AS COMMERCIAL MORTGAGE-BACKED SECURITIES, NONBANK BUSINESS LENDING AND STRUCTURED CREDIT.

APOLLO INVESTMENT (SYMBOL AINV, $16, YIELD 11.2%) shares have returned 41% this year, although they still trade at a discount to the per-share value of Apollo's portfolio of debt securities. (Prices and other data are as of September 30.) Apollo's loans and airplane leases are mostly secured, and almost all are floating-rate. Its rival lender **ARES CAPITAL** (ARCC, $19, 8.6%) has a 28% return so far in 2019 and has virtually eliminated subordinated debt (which ranks behind other debt in the event of default) from its portfolio because Ares can still collect an overall 10.5% on better-quality assets. The shares trade a tad above the $17.27 per-share net asset value of Ares' underlying holdings—but that's acceptable.

COMPASS DIVERSIFIED INCOME (CODI, $20, 7.3%) owns businesses rather than lending to them and is up 69% for the year to date. Yet its yield remains robust, and it trades close to its net asset value.

In a future column, I'll talk about debt pools of much shorter duration that yield about 4% and are suitable substitutes for ultra-short debt funds or cash. ■

POON WATCHARA-AMPHAIWAN

JEFF KOSNETT IS EDITOR OF *KIPLINGER'S INVESTING FOR INCOME*. CONTACT HIM AT JEFF_KOSNETT@KIPLINGER.COM.

ACQUISITIONS

How to Cash In When Firms Merge

These funds let Main Street investors profit from Wall Street's deals. BY BRENDAN PEDERSEN

WALL STREET HAS LONG BEEN KNOWN for deal-making. But after a brisk first half of this year, the pace and value of deals has slowed considerably. Mergers and acquisitions announced in the third quarter of 2019 totaled $218 billion, down from $449 billion in the second quarter, according to research firm S&P Global Market Intelligence. Despite the slowdown, more than 10,000 deals were announced for the year through September 30, valued by S&P Global at nearly $1.1 trillion.

It was hard to ignore Occidental Petroleum Corp.'s dramatic courtship of Anadarko, ending in August in an acquisition that S&P Global valued at $57.2 billion. Other big deals announced this year include Bristol-Myers Squibb's pending acquisition of Celgene, which S&P Global calculates is worth a whopping $95 billion, and United Technologies' proposed merger with Raytheon, valued at $91.1 billion. The prospects are good for more M&A, says S&P. Lower interest rates are keeping acquisition financing costs down, and although a rising stock market can make takeover targets more expensive, it can also boost buying power in cash-and-stock deals.

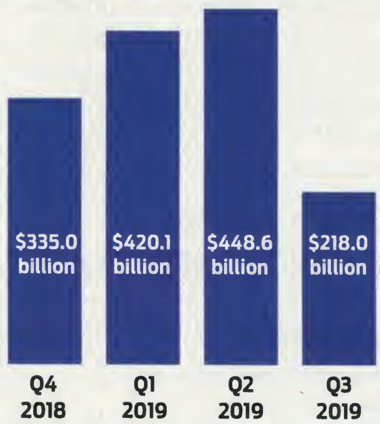
How to invest. The fastest way to benefit from a hot M&A market is to own stock in a takeover target. Investment firm Fidelity estimates that a target's stock typically increases 30% by the time the deal closes. But trying to predict a purchase before it happens is like trying to find hay in a needlestack.

Instead, consider a merger arbitrage fund. After news of a sale goes public, these funds pick up stock of the company being acquired in hopes that they'll profit on the difference between the current share price and the price when the deal closes—if it closes.

Urge to Merge

U.S. M&A ACTIVITY

Aggregate value of transactions



SOURCE: S&P Global Market Intelligence

The odds of a deal falling through are slim, but the risk is real. By the time a proposed merger between Pfizer and Allergan fell apart in April 2016, Allergan's stock price had fallen by nearly 20% from where it stood when the deal was announced and by more than 30% from the proposed takeover price. "The downsides in this industry are steep," says Roy Behren, comanager of **MERGER FUND (SYMBOL MERFX)**. "When it comes to fund performance, it's not the deals you are in, it's the deals you avoid," he says.

Behren and comanager Mike Shannon have managed the fund, with more than $3 billion in assets, since 2007 and have a solid track record of picking winning deals. In the past 10 years, the fund has returned an annualized 3.1%—above average for market-neutral funds—with below-average volatility. "People invest with us because they want absolute, stable returns," says Behren. Consider that Merger lost a cumulative 5.0% in the 2007–09 bear market, compared with 55.3% for the broad market. The 2.01% expense ratio seems steep, but it compares favorably with other market-neutral funds.

Merger arbitrage exchange-traded funds follow a similar playbook but typically have lower fees and broader criteria for stock selection—which can increase risk. The **IQ MERGER ARBITRAGE ETF (MNA, $32)**, with just under $1 billion in assets, charges 0.77% in expenses. The fund invests in takeover targets headquartered in developed markets, focusing on firms that have profit margins exceeding a certain threshold and whose shares are highly liquid. The ETF won't hold a stock for more than 360 days, says manager Sal Bruno. MNA has returned 2.8% annualized since it launched in late 2009.

It's possible to profit with the companies doing the acquiring—if you know where to look. Health care equipment firm **DANAHER (DHR, $144)** follows an aggressive growth-through-acquisition strategy, but it keeps sprawl in check by cutting costs and overhauling its acquisitions. "Danaher's strength is targeting a bloated company in a strong industry and whipping it into shape," says Mike Bailey, director of research at FBB Capital Partners. The stock has returned 34% over the past year and 19% annualized over the past 10 years. It currently trades at a price-earnings ratio of 27, compared with 17 for the market overall, so look to buy on dips. ■

FOR QUESTIONS OR COMMENTS ABOUT THIS ARTICLE, PLEASE E-MAIL FEEDBACK@KIPLINGER.COM.

THE KIPLINGER ETF 20 UPDATE

Buy Mid Caps on the Cheap

EAGLE-EYED READERS MAY NOTICE that a column has gone missing from the table that accompanies this story—the one indicating the brokerages where you can purchase our favorite exchange-traded funds without a commission. We're happy to report that the latest salvos in the brokerage price wars have made that information obsolete (see "The Other Trade War," on page 42). Customers at practically every major online broker can now purchase all 20 of the ETFs on our list commission-free.

Another thing you may have noticed: In an up and down 12 months for stocks, **ISHARES CORE S&P MID-CAP** is among the worst performers on the list. Its –2.6% return lags the large-company Standard & Poor's 500-stock index by 6.9 percentage points over that period. In one sense, that's to be expected. Stocks with midsize market capitalizations (share price times shares outstanding), typically between $2 billion to $10 billion, tend to fare worse than larger names during market downturns, says BlackRock ETF strategist Elizabeth Grenfell. "Large caps by their nature tend to hold up better during periods of volatility, thanks to their size and the stability of their cash flows," she says.

Baked into the one-year results is a particularly nasty downturn from mid September through late December 2018, when the S&P Mid-Cap 400 index, the benchmark that iShares Core S&P Mid-Cap tracks, fell into bear-market territory with a loss of 21%. Mid caps have been slower than their large-company counterparts to recover, and they still haven't made it all the way out of the hole.

But the lag in mid caps presents investors with the chance to buy good stocks relatively cheaply, says Brian Andrew, chief investment officer for wealth management firm Johnson Financial Group. He says mid caps are in a market sweet spot, capturing the fast growth potential of ascending small firms combined with the financial maturity of larger companies. The potential for mid caps to excel has been borne out historically: From 1994 through May 2019, the annualized return of the S&P Mid-Cap 400 has bested comparable small-cap indexes by 0.9 percentage point and large-cap indexes by 2.0 points. Stocks in the mid-cap index currently trade at 16.7 times projected earnings over the next 12 months, compared with a multiple of 17.2 for the S&P 500.

The best way to invest. Andrew recommends that investors use the breakdown of the broad market's capitalization as a guide for their domestic stock allocation, with roughly 70% of assets in large caps, 20% in mid caps and 10% in small caps. The iShares ETF is among the most inexpensive and highly diversified mid-cap funds, charging just 0.07% of assets for exposure to some 400 stocks. **RYAN ERMEY**
Ryan_Ermey@kiplinger.com

Returns/Yields/Fees

KIPLINGER ETF 20: VITAL STATISTICS

			Annualized total return				
Core Stock Funds	Symbol	Share price	1 yr.	3 yrs.	5 yrs.	Yield	Expense ratio
Invesco S&P SmallCap Low Vol	XSLV	$49	1.8%	10.7%	12.9%	3.3%	0.25%
iShares Core S&P 500	IVV	298	4.2	13.4	10.8	1.9	0.04
iShares Core S&P Mid-Cap	IJH	193	–2.6	9.3	8.8	1.6	0.07
Vanguard Total Intl Stock	VXUS	52	–1.5	6.1	3.2	NA	0.09
Vanguard Total Stock Market	VTI	151	2.9	12.8	10.4	1.9	0.03
Dividend Stock Funds							
Schwab US Dividend Equity	SCHD	$55	6.7%	12.3%	10.5%	3.3%	0.06%
Vanguard Dividend Appreciation	VIG	120	10.1	14.8	11.5	1.8	0.06
WisdomTree Glbl ex-US Qual Div Gro	DNL	58	3.9	8.2	5.0	1.8	0.58
Strategic Stock Funds							
ARK Innovation	ARKK	$43	–6.4%	26.6%	—	NA	0.75%
Fidelity MSCI Industrials Index	FIDU	40	1.1	11.7	9.8%	1.6%	0.08
Financial Select Sector SPDR	XLF	28	3.8	15.3	10.4	2.0	0.13
Invesco S&P 500 Eq Wt Health	RYH	196	–4.2	8.6	9.3	0.6	0.40
iShares Edge MSCI Min Vol USA	USMV	64	14.6	14.4	13.5	2.0	0.15
iShares MSCI USA ESG Select	SUSA	124	5.2	12.6	10.2	1.6	0.25
Core Bond Funds							
Pimco Active Bond	BOND	$109	9.8%	3.7%	3.8%	2.7%	0.55%
SPDR DoubleLine Total Ret Tactical	TOTL	49	7.6	2.7	—	2.8	0.55
Opportunistic Bond Funds							
Invesco Senior Loan	BKLN	$23	2.7%	3.5%	2.8%	4.7%	0.65%
iShares Ultra Short-Term Bond	ICSH	50	3.2	2.2	1.6	2.3	0.08
Pimco Enhanced Low Duration Active	LDUR	100	3.9	2.4	2.4	2.6	0.39
Vanguard Total International Bond	BNDX	59	11.3	4.1	4.6	0.4	0.09
Indexes							
S&P 500-STOCK INDEX (LARGE U.S. STOCKS)			**4.3%**	**13.4%**	**10.8%**	**2.0%**	
MSCI EAFE INDEX (FOREIGN STOCKS)			**–1.3**	**6.5**	**3.3**	**3.4**	
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			**10.3**	**2.9**	**3.4**	**2.2**	

As of September 30. —Fund not in existence for the entire period. NA Not available. SOURCES: Dow Jones, Fund companies, Morningstar, MSCI.

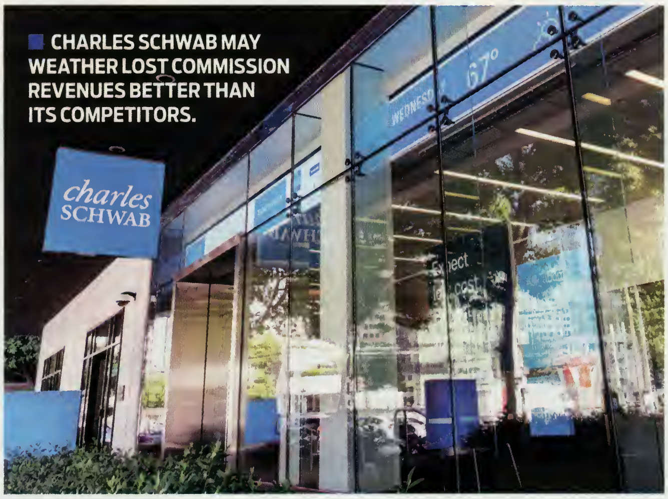
FEE CUTS

The Other Trade War

Commissions hit zero at big online brokers, but investors should be aware of other, sometimes hidden costs. BY RYAN ERMEY

AFTER A YEARS-LONG RACE among online brokers to slash investor costs to the minimum, in the end it only took a few days for a handful of major firms to cross the proverbial finish line. In October, Charles Schwab announced it would eliminate its $4.95 commission on all online stock, exchange-traded fund and options trades. Within a week, several big-name online brokers rolled out similar commission-free deals, including Ally Invest, E*Trade, Fidelity, TD Ameritrade and TradeStation. Some trading fees still apply: Options traders at these firms must still pay contract fees, for instance. But those have been lowered in some cases, too.

Schwab isn't the first firm to offer free trading. Interactive Brokers launched IBKR Lite, a new online platform with free stock and ETF trades, just days before Schwab cut its commissions. And even before that, Firstrade, Robinhood and TradeZero America all offered free stock and ETF trading to customers.



CHARLES SCHWAB MAY WEATHER LOST COMMISSION REVENUES BETTER THAN ITS COMPETITORS.

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A win for investors—mostly. Overall, the commission-free trend is a win for individual investors, especially those with small accounts for whom trading fees make up a larger percentage of their overall costs. But investors should resist the urge to get trigger-happy. Even with commissions at zero, "the behavioral costs" of investing aren't going to go away, says Charles Rotblut, vice president of the American Association of Individual Investors, a nonprofit investor education group. Investors who use free trades as an excuse to make frequent, emotional trades will likely erode their long-term returns, he says.

Be wary, too, of other ways that brokerage firms may try to get money from you. Brokerages hope the move to zero commissions will allow them to attract and retain more customers and charge them for other services, such as banking, asset management, advisory services and estate planning, says Rotblut. In many cases, the service may be a good fit. Just be watchful of the fees, what you're getting in exchange for them and how they compare with what other firms charge.

Brokers will continue to charge you in ways you can't see, too. One such way is through your cash. Every brokerage firm moves your uninvested cash into low-yielding accounts called sweep accounts, the default for investor cash balances. The brokerage firms plunk those balances in short-term investments and pay clients far less interest than the firms earn on the money. Ask your broker about the yield on your default sweep account; you may be able to choose a higher-yielding account. Fidelity's zero-commission rollout included an announcement that the firm will automatically direct investor cash into its highest-yielding sweep accounts.

There's also a potential cost to you with market makers—the businesses (dealers or securities exchanges) that actually execute your trades. Many brokerages accept payments for routing trade orders through certain market makers. Generally, when a broker accepts payment for order flow from a third party, it's thought to cost you on your execution price, whether you're buying or selling shares. A number of brokerages, such as Robinhood and TD Ameritrade, do this, and the practice could increase as brokers look for ways to fill the gap left by departing commission revenues. Notably, Fidelity says it does not accept payment for order flow.

The zero-commission news wasn't a win for the brokers' shareholders, at least initially. Schwab shares fell 10% on the day the firm announced its zero-commission policy, E*Trade stock sank 16%, and TD Ameritrade tumbled 26%. Credit Suisse analysts say firms such as Schwab that offer more-robust services are best equipped to withstand the commission cut. But firms that logged a chunk of total revenue in commissions, such as E*Trade and TD Ameritrade, could see significant hits to earnings. ■

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MUTUAL FUND SPOTLIGHT

A Focus on Value

This fund choses high-quality but overlooked stocks.

FAMED HOLLYWOOD DIRECTOR Howard Hawks is said to have defined a good film as one with three good scenes and no bad ones. The management team behind **AMERICAN CENTURY EQUITY INCOME** takes a similar approach when it comes to undervalued large-company stocks. "Any value index will have stocks that do poorly and go to zero. If you avoid those firms that are significantly impaired or that have poor balance sheets, you'll do better than the index with less volatility," says comanager Phil Davidson. The fund's strategy goes beyond filtering out losing firms, but its performance reflects that basic tenet. Over the past 15 years, the fund's 8.2% annualized return beat that of its benchmark Russell 3000 Value index by 0.4 percentage point. Over the period, Equity Income was 33% less volatile than the benchmark and 29% less volatile than the broad stock market. (Returns are through September 30.)

The avoidance of stock market horror shows and a focus on high-quality, dividend-paying stocks have led to the fund's superior downside performance. For instance, the fund lost only 39.2% during the 2007–09 bear market, when Standard & Poor's 500-stock index plunged 55.3%. More recently, the fund surrendered 13% during the S&P's near-20% downdraft in late 2018.

The fund's four comanagers and 15 analysts favor financially healthy firms that trade cheaply relative to measures such as earnings and free cash flow (cash profits left over after capital outlays). Top holdings include medical device maker Medtronic, telecom giant Verizon and PNC Financial Services Group.

The managers further tamp down volatility by allocating nearly 20% of assets to preferred stocks, convertible securities and bonds, all of which tend to be less volatile than common stocks. These investments also help boost the fund's yield, which currently stands at 2%.

The value-oriented fund has lagged the broad stock market over the past decade, a period that has seen fast-growing stocks outperform undervalued names. "But investors looking for a diversified portfolio with sustainable yields will appreciate our fund's ability to hold up in tougher markets," says Davidson. **RYAN ERMEY**
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LARGE-COMPANY STOCK VALUE FUNDS

Ranked by five-year return

Rank/Name	Symbol	Annualized total return 1 yr.	5 yrs.	Max. sales charge	Exp. ratio
1. Copley@	COPLX	16.1%	13.1%	2.00%r	2.70%
2. Hillman No-Load@	HCMAX	11.3	10.6	none	1.53
3. BMO Low-Volatility Equity A	BLVAX	12.4	10.4	5.00	0.90
4. Columbia Dividend Income A	LBSAX	8.3	10.3	5.75	0.96
5. American Century Equity Income Inv	TWEIX	9.6	10.0	none	0.92
6. The MP 63@	DRIPX	8.8	9.9	1.00r	0.72
7. Sterling Capital Equity Income A	BAEIX	8.5	9.8	5.75	1.02
8. Principal Equity Income A	PQIAX	7.9	9.8	5.50	0.89
9. Commerce Value@	CFVLX	8.7	9.6	none	0.71
10. Vanguard Equity-Income Inv	VEIPX	6.4	9.5	none	0.27
CATEGORY AVERAGE		1.9%	7.2%		

20 LARGEST STOCK AND BOND MUTUAL FUNDS

Ranked by size. See returns for thousands of funds at kiplinger.com/tools/fundfinder.

STOCK MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	Annualized total return 1 yr.	5 yrs.	Max. sales charge
1. Vanguard Total Stock Market Idx Adm	VTSAX	$704.7	2.9%	10.4%	none
2. Vanguard 500 Index Adm	VFIAX	372.8	4.2	10.8	none
3. Vanguard Total Intl Stock Idx Adm	VTIAX	369.5	–1.6	3.2	none
4. Fidelity 500 Index Inv	FXAIX	208.1	4.2	10.8	none
5. American Growth Fund of America A	AGTHX	186.3	–2.3	10.6	5.75%
6. American EuroPacific Growth A	AEPGX	158.5	0.8	4.7	5.75
7. American Balanced A	ABALX	150.4	5.1	7.6	5.75
8. American Washington Mutual A	AWSHX	120.5	5.8	9.8	5.75
9. Fidelity Contrafund	FCNTX	114.7	–1.3	11.6	none
10. American Income Fund of America A	AMECX	111.0	5.4	6.1	5.75
S&P 500-STOCK INDEX			4.3%	10.8%	
MSCI EAFE INDEX			–1.3%	3.3%	

BOND MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	1-year total return	Current yield	Max. sales charge
1. Vanguard Total Bond Market Idx Adm	VBTLX	$195.4	10.4%	2.3%	none
2. Pimco Income A	PONAX	130.1	5.7	3.0	3.75%
3. Vanguard Total Intl Bd Idx Adm	VTABX	117.0	11.3	0.4	none
4. Metropolitan West Total Return Bd M	MWTRX	79.3	10.2	2.3	none
5. Vanguard Interm-Term Tax-Ex Inv	VWITX	70.6	7.9	1.5	none
6. Pimco Total Return A	PTTAX	68.4	9.7	2.2	3.75
7. Dodge & Cox Income@	DODIX	62.3	9.1	3.7	none
8. Vanguard Short-Term Inv-Grade Inv	VFSTX	61.0	5.8	2.2	none
9. DoubleLine Total Return Bond N	DLTNX	54.3	7.7	3.2	none
10. Lord Abbett Short Duration Income A	LALDX	53.5	4.8	2.7	2.25
BLOOMBERG BARCLAYS US AGGREGATE BOND INDEX			10.3%	2.2%	
B OF A MERRILL LYNCH MUNICIPAL MASTER INDEX			8.7%	1.8%	

Through September 30. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. rMaximum redemption fee. sFront-end load; redemption fee may apply. †For all mutual fund share classes combined. MSCI EAFE tracks stocks in developed foreign markets. SOURCES: Bank of America Merrill Lynch, Morningstar, Vanguard.

THE KIPLINGER 25 UPDATE

Surviving a Tough Market

SMALL-COMPANY STOCKS have trailed large-company stocks for much of the bull market. But you wouldn't know that by looking at **WASATCH SMALL CAP VALUE**. The fund's 18.8% annualized gain since the stock market rally began in March 2009 beats the return of the Russell 2000 index, which tracks small-company stocks, as well as Standard & Poor's 500-stock index, a proxy for large-company shares.

The past 12 months have been particularly volatile for small-company stocks, in part because the period began with a 26.9% pullback in the Russell 2000 in late 2018. But Small Cap Value held up better than the index during the downdraft, and in 2019, it rebounded more strongly, too. In short, although the fund's one-year loss of 2.7% is disappointing on an absolute basis, it beat the 8.9% dent in the Russell 2000. "We're a good house in a bad neighborhood," says manager Jim Larkins. (Returns are through September 30.)

Larkins looks for growing companies that trade at value prices. "This is a growth-*ier* value fund," he says. The portfolio's 50-odd stocks generally fall into one of three buckets: undiscovered gems, or companies operating largely under the radar; fallen angels, or firms suffering a temporary setback; and what Larkins calls quality value, or cheap stocks in steadier, slower-growing firms. The mix of fast-growers and sturdier companies has helped the fund deliver above-average returns with below-average volatility.

One of the fund's hidden gems is LGI Homes, an up-and-coming homebuilder that targets first-time buyers. The stock has climbed more than 75% over the past year. And then there's Lithia Motors. Larkins first bought shares in 2017. The company, which buys up failing car dealers and turns them around, stumbled in 2018 after a slew of acquisitions. Low interest rates have helped business this year, however, and shares have risen 64%.

But the fund's high-quality names give it stability. Arbor Realty Trust, a real estate finance company, has returned 25% over the past 12 months and sports an 8.9% yield. "We like income payers in our portfolio to offset our fallen-angel approach—that's the messier part of the portfolio," says Larkins. **NELLIE S. HUANG**

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KEY DATA FOR OUR MUTUAL FUND PICKS

Kiplinger 25 funds are no-load; you can buy them without sales charges. For more about the funds, visit kiplinger.com/links/kip25.

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
D.F. Dent Midcap Growth	DFDMX	13.0%	14.3%	—	0.0%	0.98%
Dodge & Cox Stock	DODGX	-2.0	8.1	12.0%	1.8	0.52
Mairs & Power Growth	MPGFX	4.3	9.4	12.6	0.0	0.64
Parnassus Mid Cap	PARMX	10.6	10.6	13.3	0.0	0.99
T. Rowe Price Blue Chip Growth	TRBCX	2.0	14.2	15.8	0.0	0.70
T. Rowe Price Dividend Growth	PRDGX	11.6	12.0	13.2	0.0	0.64
T. Rowe Price QM US Sm-Cp Gro	PRDSX	-1.4	11.1	14.9	0.0	0.80
T. Rowe Price Sm-Cap Value	PRSVX	-4.1	9.3	11.6	0.0	0.85
T. Rowe Price Value	TRVLX	8.2	8.2	12.1	0.0	0.78
Primecap Odyssey Growth	POGRX	-10.7	11.0	13.4	0.5	0.65
Vanguard Equity-Income	VEIPX	6.4	9.5	12.8	2.9	0.27
Wasatch Small Cap Value	WMCVX	-2.7	9.4	12.5	0.0	1.20

International Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
AMG TimesSquare Intl Sm-Cap	TCMPX	-7.3%	5.5%	—	2.3%	1.23%
Baron Emerging Markets	BEXFX	1.6	2.7	—	0.0	1.36
Fidelity International Growth	FIGFX	6.3	6.8	8.4%	0.0	0.95
Oakmark International	OAKIX	-6.4	2.8	6.6	0.0	0.96

Specialized/ Go-Anywhere Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Vanguard Health Care	VGHCX	-6.5%	7.1%	13.3%	1.3%	0.34%
Vanguard Wellington‡	VWELX	8.6	8.1	9.8	2.4	0.25

Bond Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
DoubleLine Total Return N	DLTNX	7.7%	3.2%	—	3.3%	0.73%
Fidelity Intermed Muni	FLTMX	7.6	2.9	3.4%	1.4	0.37
Fidelity New Markets Income	FNMIX	4.3	3.9	6.0	5.1	0.84
Fidelity Strategic Income	FADMX	6.2	3.9	5.1	3.2	0.69
Met West Total Return Bond M	MWTRX	10.2	3.1	5.0	2.3	0.67
Vanguard High-Yield Corporate	VWEHX	8.0	5.4	7.4	4.7	0.23
Vanguard Sh-Tm Inv-Grade	VFSTX	5.8	2.4	2.7	2.2	0.20

Indexes	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield
S&P 500-STOCK INDEX	**4.3%**	**10.8%**	**13.2%**	**2.0%**
RUSSELL 2000 INDEX*	**-8.9**	**8.2**	**11.2**	**1.5**
MSCI EAFE INDEX†	**-1.3**	**3.3**	**4.9**	**3.4**
MSCI EMERGING MARKETS INDEX	**-2.0**	**2.3**	**3.4**	**2.9**
BLOOMBERG BARCLAYS AGG BND IDX#	**10.3**	**3.4**	**3.7**	**2.2**

As of September 30. ‡Open to new investors if purchased directly through the fund company. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCES: Fund companies, FTSE Russell, Morningstar Inc., MSCI, S&P Dow Jones Indices.

MONEY

Money Moves to Make Now

Among the items on our to-do list: Trim your 2019 tax bill by pruning your portfolio and giving to charity. Boost your retirement-plan contributions. Cash in credit card rewards. We also suggest moves that will boost your bottom line in 2020 and beyond.

 ILLUSTRATIONS BY JOEY GUIDONE

Countdown to New Year's Eve

HARVEST YOUR LOSSES

You'll trigger a capital gains tax bill if you sell winners in a taxable account (but not in a tax-deferred account, such as an IRA). But you can sell any stocks or mutual funds that have fallen from the price you paid and use the losses to offset your profits in other investments. Line up your short-term losses with short-term gains, and do the same with long-term losses and gains. If losses exceed your gains, you can use up to $3,000 of losses to offset ordinary income. Any losses exceeding that can be rolled over—up to $3,000 per year—to future years.

WATCH OUT FOR CAPITAL GAINS DISTRIBUTIONS

If you're shopping for mutual funds for a taxable account, check the fund's website before you buy. Otherwise, your investment could saddle you with a big tax bill.

During the month of December, many funds pay out dividends and capital gains that have built up during the year. If you own shares on what's known as the ex-dividend date, you'll have to pay taxes on the payouts, even if you reinvest the money.

Before you invest in a fund, call the fund company or check its website to find the date and estimated amount of year-end distributions. The estimates are often reported as a percentage of a fund's current share price. A distribution of 2% to 3% of the share price probably won't cause you a lot of tax headaches, but if the fund estimates it will pay out 20% to 30% of the share price, wait until after the distribution to buy—or consider investing in a different fund.

CHECK YOUR WITHHOLDING

The 2017 tax overhaul lowered tax rates across the board, but it also scrapped some popular tax breaks. As a result, some taxpayers who were accustomed to receiving a refund ending up owing the IRS when they filed their 2018 tax return.

If you were part of that band of disgruntled taxpayers, you may be able to take steps between now and year-end to avoid another April surprise. Use the IRS tax-withholding estimator tool (https://apps.irs.gov/app/tax-withholding-estimator) to determine whether you need to file a new Form W-4 with your employer and increase the amount of taxes withheld from your paycheck between now and year-end. You'll need your most recent pay stub and a copy of your 2018 tax return to help estimate your 2019 income. Because only a few pay periods remain between now and the end of the year, reducing the number of allowances you claim may not make enough of a difference in your withholding to affect your tax bill. Instead, go to line 6 on your W-4 form and fill in the dollar amount you'd like to have withheld.

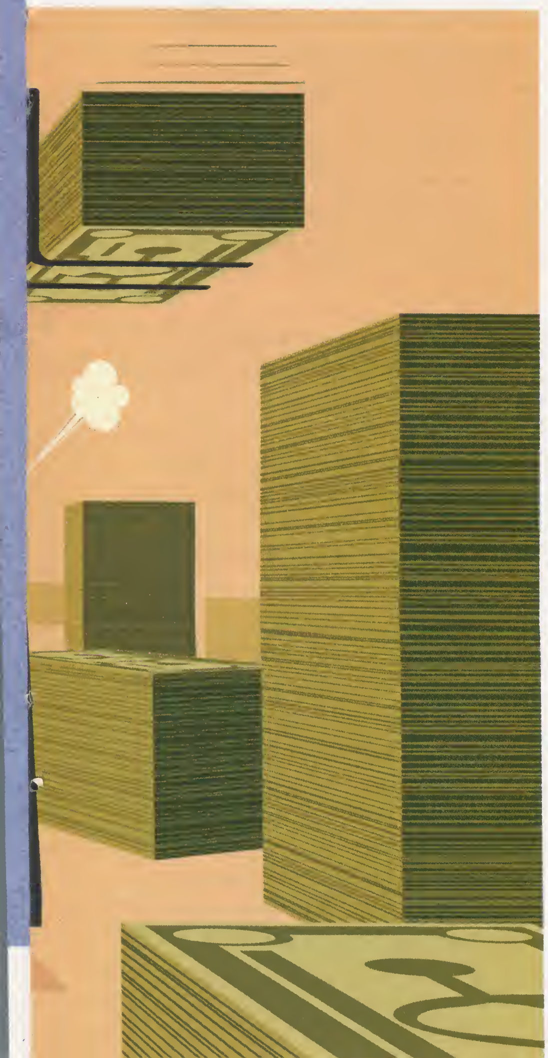
PAY SOME BILLS

Unless your finances have changed significantly, you probably have a pretty good idea of whether you'll itemize or claim the standard deduc-

tion when you file your 2019 tax return. If you plan to itemize (or you're close to the threshold), now is a good time to prepay deductible expenses, such as mortgage payments and state taxes due in January. Other moves to make by New Year's Eve:

Review your medical bills. In 2019, you can only deduct unreimbursed medical expenses that exceed 10% of your adjusted gross income (in 2018, the threshold was 7.5%). That puts this tax break out of reach for most taxpayers. But if you had very high medical expenses this year—due to a major illness, for example—you may qualify.

And there's still time to schedule appointments and procedures that will increase the amount of your deductible expenses. The list of eligible expenses includes dental and vision care, which may not be covered by your insurance. For the complete rundown, see IRS Publication 502, *Medical and Dental Expenses* (www.irs.gov/publications/p502).



Prepay tuition. If you're the parent (or grandparent) of a college student, you may be able to lower your 2019 tax bill by prepaying the tuition bill due for the next term—and you don't need to itemize to claim this tax break. The American Opportunity Tax Credit, which you can take for students who are in their first four years of undergraduate study, is worth up to $2,500 for each qualifying student. Married couples filing jointly with modified adjusted gross income of up to $160,000 can claim the full credit; those with MAGI of up to $180,000 can claim a partial amount.

Likewise, if you're planning to take a class next year to boost your own career, consider prepaying the January bill before December 31 so you can claim the Lifetime Learning Credit on your 2019 tax return. The credit is worth up to 20% of your out-of-pocket costs for tuition, fees and books, up to a maximum of $2,000. It's not limited to undergraduate expenses, and you don't have to be a full-time student. Married couples filing jointly with MAGI of up to $114,000 can claim the full credit; those with MAGI of up to $134,000 can claim a partial credit.

Contribute to a 529 college-savings plan. Stashing money in a 529 before year-end won't reduce your federal tax bill, but it could lower your state tax tab. More than 30 states allow you to deduct at least a portion of 529 plan contributions from state income taxes. In most states, you must contribute to your own state's plan to get the tax deduction, but several states allow you to deduct contributions to any state's plan. Check out your own state's rules at www.savingforcollege.com. Many states allow grandparents and others to contribute to your child's plan, and a few will allow them to deduct those contributions, too.

Look into an ABLE account. If you or someone in your family has special needs, you can contribute up to $15,000 this year to an ABLE account, which allows people with qualifying disabilities to save money without jeopardizing government benefits. You don't have to invest in your own state's plan, but if you are a resident of one of the 10 states that offer a tax break for ABLE accounts, you can deduct your contribution. For more information, go to kiplinger.com/links/able.

Make year-end gifts (no wrapping required). In 2019, you can give away up to $15,000 to as many people as you want without filing a federal gift tax return. As long as your gifts remain below the limit, they won't eat into your exemption from federal estate taxes.

The exemption is currently $11.4 million—a lofty $22.8 million for a married couple—but don't assume you'll never have to worry about estate taxes. The current exemption is scheduled to revert to about $5.5 million in 2026 (unless Congress moves to raise it), which would significantly increase the number of estates subject to federal estate taxes. And depending on the political landscape, the exemption could be dialed back even sooner than that, says Joe Maier, a senior wealth manager with Johnson Financial Group, in Menomonee Falls, Wis. Democratic presidential candidates Elizabeth Warren and Bernie Sanders have proposed lowering the threshold to $3.5 million.

Giving away money now will also reduce the likelihood that your estate will be hit by state estate or inheritance taxes. Twelve states and the District of Columbia levy their own estate taxes, and some have much lower thresholds than Uncle Sam. Plus, six states have inheritance taxes, and Maryland has both. (For other giving strategies, see the next page.)

Pump up your retirement plan. In 2019, you can stash up to $19,000 in a 401(k),

403(b), federal Thrift Savings Plan or other employer-provided retirement plan, plus $6,000 in catch-up contributions if you're 50 or older.

Over the long term, boosting retirement-plan contributions will reduce the risk that you'll come up short in retirement, but there are near-term benefits, too. Contributions to a traditional 401(k) are pretax, so the more you sock away before December 31, the less you'll owe the IRS come April 15.

Depending on how often you get paid, you may have enough time to increase the amount of money withheld from your paycheck before year-end. If you receive a year-end bonus, ask your employer if you can contribute it to your retirement savings plan.

Contributions to a tax-deferred retirement plan will reduce your adjusted gross income, which can also help lower your tax bill, says Nathan Rigney, lead tax research analyst for H&R Block's Tax Institute. Plus, numerous tax breaks phase out or disappear once your AGI crosses a specific threshold.

If you don't have a retirement plan at work, you can deduct up to $6,000 in contributions to an IRA, or $7,000 if you're 50 or older. Single taxpayers who are covered by a workplace retirement plan can deduct traditional IRA contributions if their income is less than $64,000, with the amount gradually phasing out until their income reaches $74,000. For married couples filing jointly, if the spouse making the IRA contribution is covered by a workplace retirement plan, the income phaseout is $103,000 to $123,000. You have until April 15, 2020, to contribute to an IRA for 2019, but if you invest the money now, your savings will have that much more time to grow.

If your employer offers a Roth 401(k), contributions won't lower your 2019 tax bill, but you will be able to take tax-free withdrawals when you retire. Unlike traditional Roth IRAs, there are no income limits on Roth 401(k) plans. You can split contributions between a regular 401(k) and a Roth 401(k), but your combined contributions can't exceed $19,000, or $25,000 if you're 50 or older.

Self-employed? You can save like a boss. It's much easier to save when your employer automatically deducts money from your paycheck (and matches contributions). But people who work for themselves—even if it's just part-time—can slash their tax bills and save a lot more than their friends who can't work in their pajamas.

In 2019, you can contribute up to $56,000 ($62,000 if you're 50 or older) to a solo 401(k) plan, which is available to anyone with self-employment or freelance income. Your contributions can't exceed your self-employment income for the year. You have until April 15, 2020, to contribute to a solo 401(k) and deduct your 2019 contributions, but you must open it by December 31.

Another option is a SEP IRA, but if

Give to Charity & Get a Tax Break

Many charities receive the bulk of their annual contributions during this time of year, and it's not just because people want to share their good fortune. In the past, many people gave before year-end so that they could also deduct their good deeds on their tax return. But the new tax law nearly doubled the standard deduction, reducing the percentage of taxpayers who itemize from about 30% to 10%.

Now that you've filed your 2018 tax return, you should have a pretty good idea of whether you'll itemize in 2019 or join the majority of taxpayers who claim the standard deduction. But if you're on the fence, timing your charitable gifts can lower your tax bill—which means you'll have even more money to support the causes that are important to you.

Here's how it works: Instead of giving the same amount to charity every year, combine several years of donations into a single year so you'll have enough deductions—along with other deductible expenses—to itemize. In your off years, claim the standard deduction.

If you want to continue to support your favorite charities during your off years, consider contributing your lump sum to a donor-advised fund. These funds allow you to make a large deductible donation in one year and decide later how to dole out the money. Most financial services firms offer donor-advised funds. The minimum investment at Fidelity Charitable and Schwab Charitable is $5,000.

In addition to cash, most large donor-advised funds will accept donations of appreciated securities, and after the long run-up in the stock market, that can be a particularly tax-savvy strategy. As long as you've owned the securities for at least a year, you can deduct the fair market value of the securities when you donate them. You won't have to pay taxes on the capital gains, and the charity won't either.

A strategy for retirees. If you're 70½ or older and have more money in a traditional IRA than you need, you can help your favorite charity and lower your tax bill by taking advantage of a tool known as a qualified charitable distribution.

A QCD allows you to donate up to $100,000 from your IRA directly to charity. The transfer will count toward your required minimum distribution. The contribution isn't deductible, but it won't be included in your adjusted gross income.

Lowering your AGI could help you avoid the high-income surcharge for Medicare parts B and D, and it could also reduce the percentage of your Social Security benefits subject to taxes. To take advantage of this break, your donation must go directly from your IRA to the charity or charities you want to help. Make the transfer well before year-end to ensure that the check is cashed by the charity by December 31.

you have just a little extra income from a side gig, you can save more in a solo 401(k). SEP contributions are limited to 20% of self-employment income, up to $56,000.

Don't overlook your RMDs. Required minimum distributions are mandatory if you're older than 70½ and have money in IRAs or other tax-deferred accounts (such as a former employer's 401(k) plan). Failing to take RMDs by December 31 could trigger a 50% penalty on the amount you should have taken.

Your RMDs are based on the balance in your accounts as of December 31 of the previous year, divided by a life expectancy factor based on your age (see "How to Downsize Your RMDs," Nov.). If you turned 70½ this year, you have until April 1, 2020, to take your first RMD, but waiting until then means you'll have to take two RMDs next year, which could push you into a higher tax bracket.

Don't wait until the last week of the year to check this item off of your to-do list. You'll want to give your financial institution enough time to process your trades so that the cash is in your account by year-end.

Make the most of your flexible spending account. If you have a health care flexible spending account, review its balance and rules. Some accounts still require that you forfeit anything left over at year-end, but most will either allow you to carry over up to $500 or offer a grace period for claiming expenses for the previous year. If you're running out of time to use the cash, start by reimbursing yourself for eligible expenses that you didn't claim earlier in the year. You can use the money to pay for out-of-pocket medical expenses, including deductibles and copayments, as well as uncovered dental and vision expenses. Beyond that, stock up on FSA-eligible products that you'll use in the coming year, such as contact lens solution, first aid items and hearing aid batteries. For a list of eligible items, visit FSAStore.com.

Reward Yourself & Spread the Cheer

SCOOP UP BIG-TICKET ITEMS ON SALE

The holidays may take a bite out of your budget, but they're also a good time to find savings. In December stores and restaurants offer enticing bonuses on gift cards, says Julie Ramhold, consumer analyst with DealNews.com. You might, for example, purchase a certain amount and get additional gift cards free. December is also a prime month to buy jewelry, at 40% to 70% off.

If you have a big-ticket item in mind, take advantage of Black Friday and Cyber Monday sales. "Almost every category you can think of will have something on sale," says Ramhold, with deals abounding in clothing, shoes, electronics and home goods. Discounts on laptops often exceed back-to-school markdowns, and TV sets may come with discounts and generous gift cards.

Could your toaster or blender use an upgrade? Around Black Friday, department stores sell small kitchen appliances at the deepest discounts you'll find all year.

REDEEM REWARDS

Looking for extra money to travel or shop during the holiday season? Take stock of rewards points, miles or cash back that you've accumulated with credit cards as well as hotel, airline and retail loyalty programs. Credit cards typically provide cash back as a statement credit, bank account deposit or check. You may be able to exchange points or miles for gift cards, retail purchases (say, using them directly at Amazon.com) or travel bookings.

SNAG A CREDIT-CARD BONUS

Now is a good time to pick up a credit card with a generous initial bonus of cash back or points. One of our favorites, **CHASE SAPPHIRE PREFERRED VISA** ($95 annual fee), hands out 60,000 points if you spend $4,000 in the first three months of card membership. The bonus is worth $750 in travel redemptions through Chase. Also consider **CAPITAL ONE VENTURE VISA** ($95, waived the first year), with a 50,000-mile bonus worth $500 in travel statement credits for spending $3,000 in the first three months. If you're loyal to an airline or hotel chain, check out its credit card. The **MARRIOTT BONVOY BOUNDLESS VISA** ($95) recently served up 100,000 bonus points, worth roughly $800, for spending $5,000 in the first three months.

TAKE A VACATION

Now is the time to calculate how many paid vacation days you have left in 2019 that won't roll over to 2020. The U.S. Travel Association reports that 55% of Americans didn't use all their paid time off in 2018, compared with 52% in 2017. The average number of unused days in 2018 was 6.5, up from six in 2017.

For less-expensive flights, concentrate your search over the first two weeks of December. Kayak found that median round-trip airfares hover around $245 for the first and second weekends of December, but jump by more than $100 for travel the weekend before Christmas.

For some high-end hotel deals throughout most of December—and excellent value year-round—

consider Mexico. Gabe Saglie, of deal-finding site Travelzoo, recommends the five-star Andaz Mayakoba resort in Playa del Carmen, which recently offered a three-night stay starting at $495, plus 20% off dining and a $75 spa credit, for select dates through December 23.

To catch the beginnings of summer in Australia before the crowds arrive around Christmas, head Down Under in late November or early December. For example, ADGE Apartments in Sydney, an apartment-style hotel with units that sleep up to four guests, recently offered nightly rates starting at $143 for the first three weeks of December on Travelzoo.

DON'T LET YOUR LOYALTY PROGRAM STATUS SLIP

Airline or hotel elite status, especially at the higher tiers, comes with a host of valuable perks, from complimentary upgrades on flights to free breakfast

Show Your Appreciation

The end of the year is the ideal time to thank those who made your life easier—and a tip or gift is a nice way to do it. Tally a list of people who provide service to you on a regular basis, such as your mail carrier, cleaner or caregiver for a loved one (leave professionals who don't rely on or expect a gratuity, such as your financial adviser or doctor, off the list). Prioritize your tips based on your relationship and the frequency and quality of the service. Allow yourself enough time to stock up on fresh bills, gift cards or knickknacks that will show your appreciation—and to hand over your gratuities in person or by mail.

You may need to dig a little to figure out the "rules" for tipping certain workers. For example, U.S. Postal Service carriers are prohibited from accepting cash, checks or gift cards that can be used like credit cards, but a gift worth up to $20 is allowed. Day-care centers, schools, caregiving agencies and nursing homes may also have rules governing monetary tips, in which case home-baked treats, group gifts or thank-you notes may be more appropriate.

If you employ a senior-care aide directly, consider tipping at least a week's pay; the same goes for a regular child-care provider. For a housekeeper or cleaner, the cost of one visit is appropriate. That's also true for your hairstylist, unless you tip well all year.

You can find suggestions for holiday tips in 16 categories at kiplinger.com/links/holidaytips. Whether or not you give a monetary tip to the people on your list, include a handwritten note expressing your appreciation.

spreads and late checkouts at hotels. But the major U.S. hotel chains and airlines require you to requalify each calendar year in order to enjoy elite status for the rest of that year and the next calendar year. If you're on the cusp of eligibility for a tier, then scheduling a "mileage run" to rack up the flights you need for your preferred airline, or a "mattress run" to get the overnight stays you need for your hotel loyalty program, may be worth the hassle and the cost.

Hotel loyalty programs are usually straightforward: Your tier depends on how many nights you stay. "The price of the room doesn't matter," says Scott Mayerowitz, executive editorial director of ThePointsGuy.com. "The hotel just wants to know that your head has hit the bed." Marriott, for example, starts increasing its basic member benefits once you stay for 10 or more nights. Some hotel credit cards give you a handful of elite night credits or award you status outright.

Airlines are trickier. With American Airlines, Delta and United, you need to fly a certain number of miles or "segments" (each portion of your itinerary that requires a takeoff and landing), as well as spend a minimum amount on airfare, excluding taxes and fees, to ascend the tiers. (United recently announced changes to its program starting in the 2020 qualification year.) For example, the lowest American Airlines elite tier requires a minimum spend of $3,000 in "elite qualifying dollars," as well as 25,000 "elite qualifying miles" or 30 "elite qualifying segments." Those thresholds jump to $15,000, 100,000 miles and 120 segments for the highest level. Mayerowitz says that most travelers qualify by miles rather than segments.

Before turning a nonstop flight into a three-city hop to bulk up on segments or spending a couple of nights at a hotel, look at the benefits of whatever tier you're chasing, especially if an airline or hotel co-branded credit card gets you similar perks or a fast-track to elite status.

Get Set for 2020 (and Beyond)

ASSESS YOUR PORTFOLIO RISK

Now is a good time to ask yourself how you'd be affected by a major stock market decline. First, consider your risk capacity—how a portfolio slide would affect your financial picture, such as your ability to retire on time or make scheduled withdrawals from retirement accounts that have sunk in value. Then consider your risk tolerance—how such a downturn would affect you psychologically. Someone 30 years from retirement has the *capacity* to take on riskier investments, says Sam Huszczo, a certified financial planner in Southfield, Mich. But if that person is likely to panic and sell investments when markets get volatile, "it may be prudent to take the risk down a notch," he says.

If you couldn't handle, say, a 33% dip in stocks (the average loss in Standard & Poor's 500-stock index during bear markets since World War II), consider replacing some of your stocks with investments designed to mitigate risk. One option: a balanced fund, which comes with a built-in allocation to bonds (which are less volatile than stocks). **VANGUARD WELLINGTON** (SYMBOL VWELX), a member of the Kiplinger 25, invests some 65% of assets in stocks and 35% in bonds. (The fund is open to new investors if purchased directly through Vanguard.) The fund's annualized return beat 94% of peer funds over the past 15 years, and it charges just 0.25% in annual expenses. (All prices and returns are as of September 30.)

Want to stick with stocks but reduce some turbulence? Try a low-volatility exchange-traded fund. Consider two exchange-traded funds in the Kiplinger ETF 20. **ISHARES EDGE MSCI MIN VOL USA ETF** (USMV, $64), with a 0.15% expense ratio, zeroes in on stocks of steadier large and midsize U.S. companies. Small-company stock investors can try **INVESCO S&P SMALLCAP LOW VOLATILITY ETF** (XSLV, $49), charging 0.25%.

If you aren't making big changes, at least rebalance your portfolio to make sure your holdings are in line with your long-term plan. "This is not an environment in which you want to get over your skis" in any stock, sector or asset class, says Liz Ann Sonders, Schwab's chief investment strategist. Selling some of your highest flyers builds defense into your portfolio. Tech stocks have been bull-market leaders, but if history is any guide, they may lead the decline, too. "Cutting back on tech could cushion you on the downside," says Lewis Altfest, of Altfest Personal Wealth Management.

HOLD YOUR NOSE AND BUY

A good way to put new cash to work is in undervalued or out-of-favor parts of the market. Consider dollar-cost averaging—investing a fixed amount on a regular schedule—into shares of large, value-priced companies, small-company stocks or beaten-down sectors such as energy and health care. **ENERGY SELECT SECTOR SPDR** (XLE, $59, EXPENSE RATIO 0.13%) focuses on U.S. energy firms. **ISHARES GLOBAL ENERGY** (IXC, $31, 0.46%) covers the world. For health care, we like **INVESCO S&P EQUAL WEIGHT HEALTH CARE** (RYH, $196, 0.40%).

International stocks have lagged U.S. shares in recent years, but looking ahead, David Kelly, JPMorgan chief global strategist, is optimistic about international stocks. **VANGUARD TOTAL INTERNATIONAL STOCK INDEX** (VTIAX, 0.11%), or its cheaper ETF version (VXUS, $52, 0.09%), invests in developed and emerging markets. For actively managed funds, we favor **FIDELITY INTERNATIONAL GROWTH** (FIGFX, 0.95%) and **OAKMARK INTERNATIONAL** (OAKIX, 0.96%).

CREATE A WATCH LIST

A letter to Santa shouldn't be the only wish list investors make this December. After a record-long run, some of the hottest stocks of the bull market are now pricey. But if there are stocks you'd like to own that are too high-priced for now, take note and watch closely. When the market pulls back and prices come down, you'll be ready to pounce. Here are a few names we're keeping an eye on.

Global property-and-casualty insurer **CHUBB LTD.** (CB, $161) is among the highest-quality companies in its industry, says Fidelity Equity-Income manager Ramona Persaud. The superlative "is not really subjective," Persaud says, because it's borne out by the firm's consistent underwriting and robust returns on capital. After a 27% run-up so far this year, the shares trade at a pricey premium to book value (an important valuation measure for financial firms and insurers) relative to their history. Chubb's return potential in any market environment is bolstered by its dividend, which the firm has boosted annually for 26 years straight.

TENNANT (TNC, $71) makes industrial scrubbers and sweepers that maintain floors in properties such as factories, stores and hotels. The stock trades at a steep 28 times year-ahead earnings, having popped 37% since January 1. Tennant is the first company to offer an autonomous, self-driving sweeper, and in April the company inked a deal with Walmart to deploy 1,500 of them at select retail locations. Mairs & Power Growth fund comanager Andy Adams expects the Walmart deal to drive more orders of the automated

sweeper, and he projects Tennant will boost earnings at a 15% annualized clip over the next several years.

Shares of data analytics firm **VERISK (VRSK, $158)**, which provides risk-management analysis to professionals in the insurance, financial and energy industries, have returned 45.7% in 2019 and trade at 34 times year-ahead earnings, compared with a price-earnings ratio of 17 for the S&P 500. With a whopping 80% of sales coming from long-term subscriptions, Verisk boasts consistent recurring revenues and robust pricing power. New ways of gathering data, such as through artificial intelligence and machine learning, are making Verisk's business more efficient, says Parnassus Core Equity fund manager Todd Ahlsten. He says the market for risk analytics will likely grow over time and expects the firm to boost earnings at about a 10% annual clip over the next decade.

PROTECT YOUR IDENTITY

Data breaches have continued to stack up this year. Take action to prevent identity theft or to spot it quickly after it happens.

Check your credit reports. If you haven't reviewed your credit reports lately, head to www.annualcreditreport.com, where you can get a free report from each major credit bureau—Equifax, Experian and TransUnion—every 12 months. Look for suspicious changes, such as a credit card account or mailing address that you don't recognize, which could mean you've been the victim of ID theft. If you find a problem, take steps to clear it (see "Battle the Credit Bureaus ... and Win," Oct.).

Already claimed your annual reports? Take advantage of other ways to view your reports for free. By creating an account at https://my.equifax.com, you can access an Equifax report and VantageScore credit score monthly. With Experian's www.freecreditscore.com, you can see your Experian credit report and FICO score monthly. And TransUnion's www.trueidentity.com allows you to pull up an updated TransUnion credit report daily.

Freeze and monitor your accounts. Freezing your credit reports blocks lenders from viewing them in response to a request for new credit in your name. When you're ready to apply for credit, you can temporarily lift the freeze. Both placing and removing a freeze are free. For a step-by-step guide, visit kiplinger.com/links/freeze.

The Experian and TransUnion services offer free monitoring and alerts of significant changes on your credit reports. Or, if you were a victim of the 2017 Equifax data breach, you have until January 22 to claim at least four years of free monitoring of your reports from all three bureaus; go to www.equifaxbreachsettlement.com. Another option: At CreditKarma.com, get free monitoring of your Equifax and TransUnion reports (viewing your reports and VantageScores from those bureaus is free, too). ■

SANDRA BLOCK, MIRIAM CROSS, RYAN ERMEY, LISA GERSTNER, NELLIE HUANG AND KAITLIN PITSKER CONTRIBUTED TO THIS ARTICLE.

FOR QUESTIONS OR COMMENTS ABOUT THIS ARTICLE, PLEASE E-MAIL FEEDBACK@KIPLINGER.COM.

Have the Family Money Talk

Holiday get-togethers can be good times to lay the groundwork for future family money conversations. If your family gathering is on the small side, you may be able to find a relaxed time to discuss some details. With a larger group, or in a family where emotions or tension can run high, it's usually best to introduce the topic and plan to have more-substantive discussions in the new year.

Start by identifying the key people who should know about your plans and which aspects are most important for others to know, says Betsy Simmons Hannibal, a lawyer who writes about estate planning for Nolo.com. Talking to your family about how you plan to divvy up property and other assets can head off sibling squabbles and uncertainty. Even if you prefer not to provide specifics, it's important for your heirs to understand the basics of how they'll receive any inheritance, along with the reasoning behind your decision. You might, for example, explain that you plan to divide assets unequally among your children because one has a lower earning potential due to a health condition, say, or one has made a financial sacrifice to help you in retirement.

As you review your decisions, make sure your will and beneficiaries listed on financial accounts are up-to-date. You should also broach the subject of what you'll likely expect from your family as you get older. Let your adult children (or others who will be involved in your care) know if you have a long-term-care insurance policy or if you will be relying on other resources or family assistance to cover costs as you age.

To head off any legal or financial problems if an illness or accident occurs, make sure your family knows where you keep estate-planning documents, including a will, powers of attorney for finances and health care, and any health care directives. Check in with anyone you've named as an executor or health care proxy to make sure they're aware of the responsibility and your wishes.

If you're having this discussion with your adult children, ask about their plans as well. Pertinent questions include whether they've drafted a will or made updates since having children, and whether they have enough life insurance and long-term-disability insurance.

For more strategies, listen to our podcast with Knight Kiplinger at kiplinger.com/links/family.

CREDIT

Find the Best Savings Account

SINCE THE FEDERAL RESERVE started pushing down short-term interest rates over the summer, chances are that the rate on your savings account has fallen. If you're looking for the best possible yield, see the table at right, which lists accounts with the highest recent rates on a sample balance of $25,000. At www.depositaccounts.com/savings, you can select the amount you intend to deposit, as well as your zip code or state, to see the best yields available to you.

> ## RATE UPDATES
> For the latest savings yields and loan rates, visit **kiplinger.com/links/rates**. For our top rewards cards, go to **kiplinger.com/links/rewards**.

We excluded the **FITNESS BANK SAVINGS ACCOUNT** from the table because it has an unusual requirement for you to earn an outstanding 2.75%: You must walk an average of at least 12,500 steps a day (10,000 steps if you're 65 or older). Steps are tallied through a mobile app linked to a fitness tracker, such as a Fitbit. You'll still earn interest if you walk fewer steps—2.5% for 10,000 steps (7,500 for ages 65 and up) and 1.75% for 7,500 steps (5,000 for ages 65 and up). No matter how many steps you log, you have to maintain a balance of $100 or more to avoid a $10 monthly fee.

An account interest rate that is tops today may fall way back in the pack tomorrow. If you'd rather avoid shuffling money from one account to the next, seek out one that consistently offers a strong yield.

Ken Tumin, of DepositAccounts.com, reviewed top-yielding online savings accounts and found that the three with the highest average rate over the past two years are **PUREPOINT FINANCIAL ONLINE SAVINGS**, with a current 2% rate on a balance of at least $10,000; **LIVE OAK BANK ONLINE SAVINGS**, yielding 2% with no minimum required; and the **SFGI DIRECT SAVINGS ACCOUNT**, offering 2.27% with a deposit of at least $1. None of those accounts charges a monthly maintenance fee.

Easy access to your cash. If you want to write checks or make debit card transactions from savings, look into a money market deposit account. The **REDNECK BANK MEGA MONEY MARKET** (it's a legitimate bank, despite the unconventional name) recently yielded 2.25%, with no monthly fee or minimum-balance requirement (but a $500 opening deposit), and it comes with a debit card. **LISA GERSTNER**

Lisa_Gerstner@kiplinger.com

TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of Oct. 1	Minimum investment	Website (www.)
Vanguard Prime MMF (VMMXX)	2.07%	$3,000	vanguard.com
Vanguard Federal MMF (VMFXX)	2.02	3,000	vanguard.com
Gabelli US Treas AAA (GABXX)	2.01	10,000	gabelli.com
Meeder Prime MMF (FFMXX)*	1.99	2,500	meederinvestment.com

Tax-Free Money Market Mutual Funds	30-day yield as of Sept. 30	Tax eq. yield 24%/35% bracket	Minimum investment	Website (www.)
Vanguard Muni MMF (VMSXX)	1.33%	1.75%/2.05%	$3,000	vanguard.com
M Stanley T-F Daily Inc (DSTXX)*	1.23	1.62/1.89	5,000	morganstanley.com
BNY Mellon Ntl Muni (MOMXX)	1.14	1.50/1.75	10,000	bnymellon.com
Northern Muni MMF (NOMXX)*	1.09	1.43/1.68	2,500	northerntrust.com

Savings and Money Market Deposit Accounts	Annual yield as of Oct. 11	Minimum amount	Website (www.)
CFG Community Bank (Md.)†#	2.50%	$25,000	cfgcommunitybank.com
TAB Bank (Utah)†	2.40	1	tabbank.com
First Foundation Bank (Calif.)†	2.40	1,000	firstfoundationinc.com
Popular Direct (Fla.)†‡	2.30	5,000	populardirect.com

Certificates of Deposit 1-Year	Annual yield as of Oct. 11	Minimum amount	Website (www.)
Total Direct Bank (Fla.)†	2.50%	$25,000	totaldirectbank.com
Home Loan Investment Bank (R.I.)†	2.45	2,500	homeloanbank.com
First Natl Bank of America (Mich.)†	2.35	1,000	fnba.com
Sallie Mae Bank (Utah)†	2.35	2,500	salliemae.com

Certificates of Deposit 5-Year	Annual yield as of Oct. 11	Minimum amount	Website (www.)
Pen Air FCU (Fla.)&	2.95%	$500	penair.org
Dollar Savings Direct (N.Y.)†	2.80	1,000	dollarsavingsdirect.com
Partner CO Credit Union (Colo.)&^	2.75	500	partnercoloradocu.org
Affinity Plus FCU (Minn.)&^	2.75	500	affinityplus.org

*Fund is waiving all or a portion of its expenses. †Internet only. #Money market deposit account. ‡Northpointe Bank offers a similar yield. &Must be a member; to become a member, see website. ^Hanscom FCU, Premier America Credit Union and Signature FCU offer a similar yield. SOURCES: Bankrate.com, DepositAccounts.com, Money Fund Report (iMoneyNet).

TOP CHECKING ACCOUNTS

Must meet activity requirements*

High-Yield Checking	Annual yield as of Oct. 11	Balance range†	Website (www.)
Consumers Credit Union (Ill.)#	5.09%‡	$0-$10,000	myconsumers.org
La Capitol FCU (La.)#	4.25	0-3,000	lacapfcu.org
TAB Bank (Utah)§	4.00	0-50,000	tabbank.com
Orion FCU (Tenn.)#§	4.00	0-30,000	orionfcu.com

*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. †Portion of the balance higher than the listed range earns a lower rate or no interest. #Must be a member; to become a member, see website. ‡Requires spending $1,000 or more in CCU Visa credit card purchases. §T-Mobile Money offers a similar yield for wireless customers. SOURCE: DepositAccounts.

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds	0.10%	0.10%	0.10%
U.S. Series I savings bonds	1.90	1.90	2.52
Six-month Treasury bills	1.68	1.88	2.44
Five-year Treasury notes	1.59	1.60	3.00
Ten-year Treasury notes	1.76	1.75	3.14

SOURCE: U.S. Treasury

As of October 11, 2019.

- EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.
- Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase.
- Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase.

JENNIFER BURNHAM-GRUBBS AND HER HUSBAND, JUD GRUBBS, HIT SNAGS WHEN THEY HELPED JUD'S STEPFATHER FILE A LONG-TERM-CARE CLAIM.

RETIREMENT

LONG-TERM-CARE CLAIMS: Avoid the Obstacles

Filing a claim can be an ordeal, but these preventive measures will streamline the process. BY KIMBERLY LANKFORD

BUYING LONG-TERM-CARE INSURANCE IS USUALLY a smart way to protect your finances and your family from the potentially massive cost of care. But after paying premiums for years, you don't want the insurance company to hassle you—or your children—when you submit a claim.

Even if the insurance company ultimately pays out, the claims process can be slow and complicated. It's easy to make mistakes that could delay or jeopardize the payout. And the person who bought the policy ordinarily isn't the one who submits the claim.

One frequent sticking point is the waiting period. Some policies have a zero-day waiting period for home care and a longer waiting period for nursing homes and assisted living. The fine print can even trip up the experts. Jennifer Burnham-Grubbs is the cofounder of Quantum Insurance Services, in Los Angeles. Her father-in-law, Carroll Lam, who recently died at age 84, bought a policy when he was in his early fifties. After a heart attack, he needed help with several activities of daily living. His wife, Donna, 72, had been providing the care, but it was getting increasingly difficult, and they realized that his long-term-care policy could pay for professional caregivers.

The policy had a 60-day waiting period. Jennifer thought that meant it would start to pay out 60 days after the insurer said he qualified for care, even if Donna was the one to care for him. But the policy only counted the weeks when he received at least two hours of care from a caregiver who was certified by the state. "That was eye-opening," says Burnham-Grubbs. "Now that we've been close to it, we see the nuances firsthand."

In many cases, 20 years or more have passed between buying the policy and using the benefits—and in that time, the types of care and rules for new policies may have changed. Bonnie Burns, of California Health Advocates, worked with a woman who was considering an assisted-living facility with a memory-care unit for her mother, who had dementia. But because such facilities didn't exist when she bought the policy 20 years ago, the claim was initially denied. Burns helped her appeal to the insurer, showing that the memory-care unit met the policy's licensing and care requirements, and the insurer ended up paying the claim.

The following steps can help your long-term-care claim go smoothly for yourself or your relative—and help you fight back if you're having trouble getting your claim paid.

Review the policy with your adult children. It's important to let your adult children (or another person you trust) know about your long-term-care insurance long before you need to use it—when you're usually not in a position to handle the claim

PHOTOGRAPH BY MELISSA VALLADARES

yourself. Give your adult children a copy of the policy and let them know how to start the claim. Make sure they have the contact information for the insurance company's claims department and the agent who sold you the policy.

Review the requirements for receiving payouts with them so that they can keep an eye out if you start to need help with activities of daily living or become cognitively impaired. Find out what documentation the insurer requires for them to handle the claim on your behalf, such as a power of attorney and HIPAA authorization.

Also find out about special rights your representative may have in your state. In Pennsylvania, for example, an insurer is required to send notices not only to the insured but also to the authorized representative, says Carolyn Morris, director of the Consumer Services Bureau for the Pennsylvania Insurance Department. "That person should be actively involved in what is going on, should review the policy, and should make sure there is an understanding of its terms and conditions."

If you don't have children or relatives nearby, you may want to choose a geriatric care manager or other professional who can help when needed.

Contact the insurer before you choose a care provider or facility. Some of the biggest problems happen when people pick a facility or home-care worker before they find out about the policy's requirements. Some older policies cover nursing home care but not assisted living or home care. Some that cover home care will only pay a licensed caregiver who works with an agency.

After her 92-year-old mom had trouble walking and caring for herself, Ellen Penske (not her real name) was told by the insurer that benefits would start after a 90-day waiting period as long as her mother received care at least once a week during that time. Penske, who lives in Northern California—some 400 miles from her mother—documented the care her mother received from a variety of caregivers during those three months. But she didn't know that the caregivers had to be licensed until the insurer told her that the care didn't count toward the waiting period. "None of those first three months counted," she says. "It was very frustrating."

It's never too early to contact the insurance company and ask questions. "Even if you aren't sure you have a claim yet, it's best to put the insurance company on notice and tell them what's going on," says Mike Ashley, of Senior Benefits Consultants, in Prairie Village, Kan. The insurer can explain the requirements and may even help you find caregivers or facilities in your area that qualify.

Understand how to qualify for benefits. Most long-term-care policies sold since 1997 will pay out if you need substantial assistance with two out of six activities of daily living (bathing, dressing, toileting, transferring, eating and continence) or if you have severe cognitive impairment and need substantial supervision. But older policies may have other criteria—such as requiring a three-day hospital stay first. The documentation can be detailed and complicated, and can vary by company and policy.

Genworth, for example, has an online claims portal where you can submit the information and then talk with an intake specialist, who will start the claim and then send out a nurse for an exam. (Some other insurers require a lot of faxing.) "Typically, we will arrange for a nurse to go to the insured to assess the insured's functional abilities, cognitive status, personal needs and environment to assist us in determining benefit eligibility," says Leonard Savini, vice president of long-term-care claims at Genworth. "Based on this assessment, we may request medical information from doctors."

Make sure the doctor submits the

What to Look For

Policies That Avoid Problems

Some key provisions in your policy could help you avoid or minimize claims problems.

Broad coverage for nursing homes, assisted living and home care. Some policies only cover licensed home care providers who work with an agency, but others let you hire anyone who isn't related to you, and those providers may charge a lot less. A few policies pay out as long as you meet the requirements for benefits, no matter who is providing the care.

A "calendar day" elimination period. A policy with this elimination period starts the clock as soon as you qualify for care and can start paying out much faster than a policy with a "service day" elimination period, which only counts the days you receive care. That's especially important if you start out needing home care just a few days a week. Some policies have a zero-day waiting period for home care and a longer waiting period for nursing homes or assisted living, which can make home-care claims much less complicated.

Less documentation. Find out about the paperwork needed to file and continue a claim. Some insurers require caregivers to send care notes every few weeks in order to continue paying the claim and reimburse you for the costs. Others just pay out if you meet the benefit triggers, and then you decide how to spend the money. These "indemnity policies" are less common but don't require ongoing documentation.

A shorter waiting period. You may save money in premiums by having a longer waiting period, but you'll have to pay a lot of money out of pocket first. A 60-day or 90-day waiting period is often a good balance.

required information. "Go about getting the documentation and making sure the providers provide it," says Leslie Pierce, health division chief in the Pennsylvania Insurance Department's Bureau of Consumer Services. "Delays in the claims process are sometimes on the side of the provider."

The diagnosis is important, but that's not really what insurers are looking for, says Ashley. "They're looking for whether you need substantial assistance with the activities of daily living or substantial supervision with cognitive impairment." He recommends that family members document the help their parents need or evidence of cognitive impairment.

Your insurance broker may be able to help, as Sheila Malina and her mother, Gloria Schwartz, discovered. Schwartz, 88, started having trouble with mobility after heart surgery and other health issues, and Malina asked her to consider moving from her home in Wisconsin to an assisted-living facility near her in Illinois. They dug up the long-term-care policy Gloria bought 20 years ago from CNA to find out more about the requirements to receive benefits. "At first, we couldn't find the policy, and the terms were difficult to understand," says Malina.

Malina contacted MAGA Ltd., the insurance brokerage in Bannockburn, Ill., where her mother had originally bought the policy. Jolene Winter at MAGA became their advocate, explaining the policy's details and helping them navigate the claims process. "Jolene said to come in to her office and we will make sure every page is filled out correctly," says Malina. "Every mistake or omission could delay the claim for months."

Ask how the waiting period works. Long-term-care policies have a waiting period (generally 30, 60 or 90 days) when you have to pay for care yourself before the policy will pay out. But the definition of this "elimination period" can vary a lot by policy.

Some policies have a zero-day waiting period for home care and a longer waiting period for nursing homes and assisted living. And they may have different requirements for what counts. For example, policies with a "calendar day" elimination period start the clock ticking as soon as you meet the conditions for benefits. But some policies only count "service days"—the days you receive care—or require a certain amount of care each week to count.

Make sure to have money available to pay for care during the elimination period, and possibly for a few months afterward while the claim is being approved. Find out about the fastest way the insurer can send the money.

Find out what paperwork is required. Most policies require a lot of ongoing paperwork for the claim to continue to be paid, and the specifics vary by policy. "Many policies require that evidence of incurred expenses be submitted before reimbursement will be made," says Savini. He advises policyholders to work with the caregiver or facility to make sure that any invoices submitted include all the information needed, such as the type of care provided and what activities of daily living were involved.

Get help if you have delays. "If there's a challenge with a claim, my advice is to let your agent be your advocate," says David Eisenberg, an insurance broker in Los Angeles. The agent (if you have one) will understand how to navigate the insurance company's claims process and can help get a claim approved more quickly. Or you may be able to pay another agency to help with your claim. For example, people who bought their policies elsewhere can pay MAGA $1,500 or more to become their agent of record and handle their claim.

Going up the ladder at the insurance company can help, too. Simone Gell's father was diagnosed with Alzheimer's disease when he was 71, and he eventually moved to an assisted-living facility. Gell hired extra caregivers to supplement the nursing staff and help him 24 hours a day, until he passed away at age 80. After a delay in receiving payments from his insurer, John Hancock, Gell called the CEO's office and was put in touch with a senior operations manager, who discovered that the checks had been delayed because the facility wasn't sending in the claim information promptly. Whenever they had delays after that, the operations manager would contact the facility to get the right information and get the claim processed quickly.

Your state insurance department can also help speed up the process and get answers from the insurer. In Pennsylvania, insurers must notify you of your claim's status within 30 days of filing and then update you every 45 days. Delays are the most common complaint the department receives about long-term-care claims. Find your insurance department at www.naic.org/map. ■

CONTACT THE AUTHOR AT FEEDBACK@KIPLINGER.COM.

Kiptip

How to Fight Back

If the insurer denies the claim, first find out why. It could be that a provider didn't send in the proper paperwork, or you may not have met the policy's requirements. Find out about your appeal rights in your state, which usually must be spelled out in the denial letter. In Pennsylvania, for example, you have the right to request an internal appeal after a denied claim, and then an external independent review.

Document the names and titles of everyone involved in the discussion when there is a claim denial, "which assists us if they submit a complaint," says Carolyn Morris, of the Pennsylvania Insurance Department.

Your State Health Insurance Assistance Program may also be helpful (go to www.shiptacenter.org). Some state programs only focus on Medicare, but some help with long-term care, too.

LIVING IN RETIREMENT | Janet Bodnar

Hitting My Stride in Retirement

Not long ago, I passed the two-year mark of my retirement as editor of *Kiplinger's*. That apparently is something of a milestone. A study by Age Wave and Bank of America Merrill Lynch found that "it can take two to three years to hit your stride in retirement." So how am I doing? I'd say I'm pretty much on track.

People often ask me if I miss being editor. My honest answer: Absolutely not. I thought I had a successful run, and I was happy to move on. But I've discovered that I apparently belong to a relatively small group of retirees (15%) that Age Wave identifies as "driven achievers," who continue working in some capacity because it gives them a sense of accomplishment. Writing this column, along with "Money Smart Women" (a topic I have covered since writing a book on the subject in 2003), gives me that sense, and it lets me stay in touch with dozens of readers, who generously share their own experiences.

Driven achiever that I am, I also find myself making to-do lists, and I need to check off a few items—even small things, such as sending e-mails or running errands—each day. The part-time work and the lists add structure to my week. But I'm grateful that I have plenty of unstructured time to do a lot of satisfying things I never would have been able to fit into my schedule if I were on the job full-time.

For one thing, my husband and I have stepped up our exercise program. We take cycling and yoga classes together, and I take a couple of other classes on my own—all regular activities that help anchor our days and keep us healthy.

Lord knows we certainly need to stay physically fit and mentally sharp to keep up with our grandchildren. We have four of them, ages 4 and younger, and one day a week we babysit for the two who are local. That leaves time to visit the other two, who live in Michigan, every month or so. We try not to let too much time go by between visits because the children grow so fast.

In fact, a lot of our increased travel time revolves around family—vacations with the kids and grandkids and visits to out-of-town siblings. But we've also visited nine national parks since we retired, and next year we're heading to Acadia in Maine with my husband's sister and her husband.

Once I tick off a couple of things on my to-do list each day, I give myself permission to spend time with a good book. With more opportunity for reading, I've focused on U.S. history, an interest I share with my youngest child, Peter. At Peter's suggestion, I'm reading *The Autobiography of Benjamin Franklin*. And I had time to read a recently published U.S. history textbook (*Land of Hope*, by Wilfred McClay) from cover to cover.

> **WE'VE VISITED NINE NATIONAL PARKS SINCE WE RETIRED, AND NEXT YEAR WE'RE HEADING TO ACADIA IN MAINE.**

Big surprises. Before I left my job, I made a list of things I'd do in retirement, plus a schedule of what my week might look like: write, spend time with my grandchildren, exercise more, travel, volunteer, clean out the closets, remodel the bathrooms. Two-plus years in, I can check most of those boxes (as for volunteering, I'm involved with my church and I'm on the board of trustees at my undergraduate university). But I haven't made much headway with the closets, and the bathrooms are still a gleam in my eye.

In fact, one of my biggest surprises is that my week looks so little like I pictured it. Despite being retired, I sometimes feel pressed for time, and I still look forward to weekends.

What isn't so surprising is that one of my greatest pleasures is the flexibility I have in deciding how to spend my days—even when it comes to simple things. There's nothing like the freedom to run errands at noon on a Tuesday, with little traffic, lots of parking and '60s music playing on the car radio.

What has surprised you most about retirement, and what are your greatest pleasures (or disappointments)? I'll be happy to write about as many as I can. ■

POON WATCHARA-AMPHAIWAN

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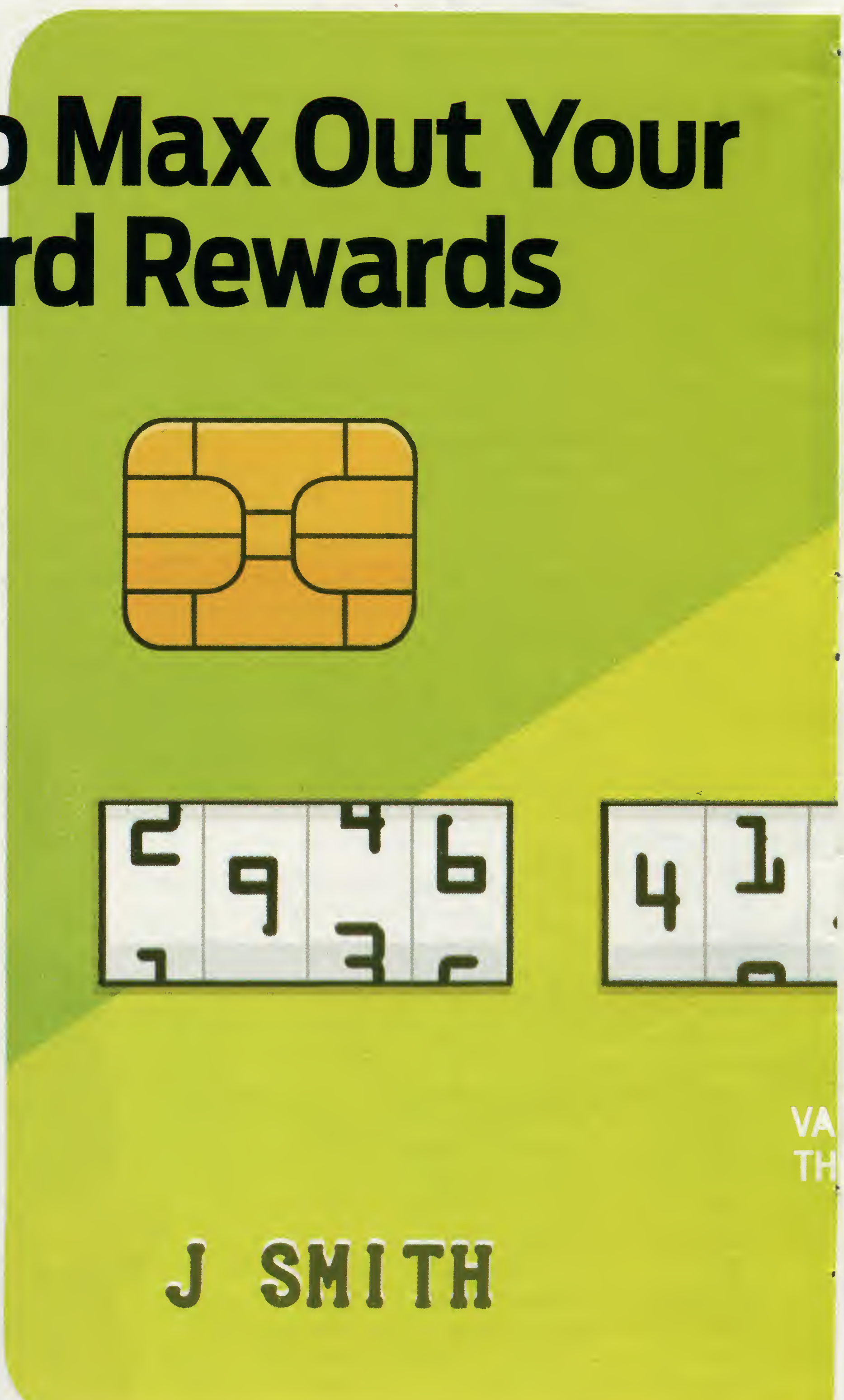
5 Ways to Max Out Your Credit Card Rewards

Play your cards right and a first-class flight, luxe hotel suite or a pile of cash can be yours.

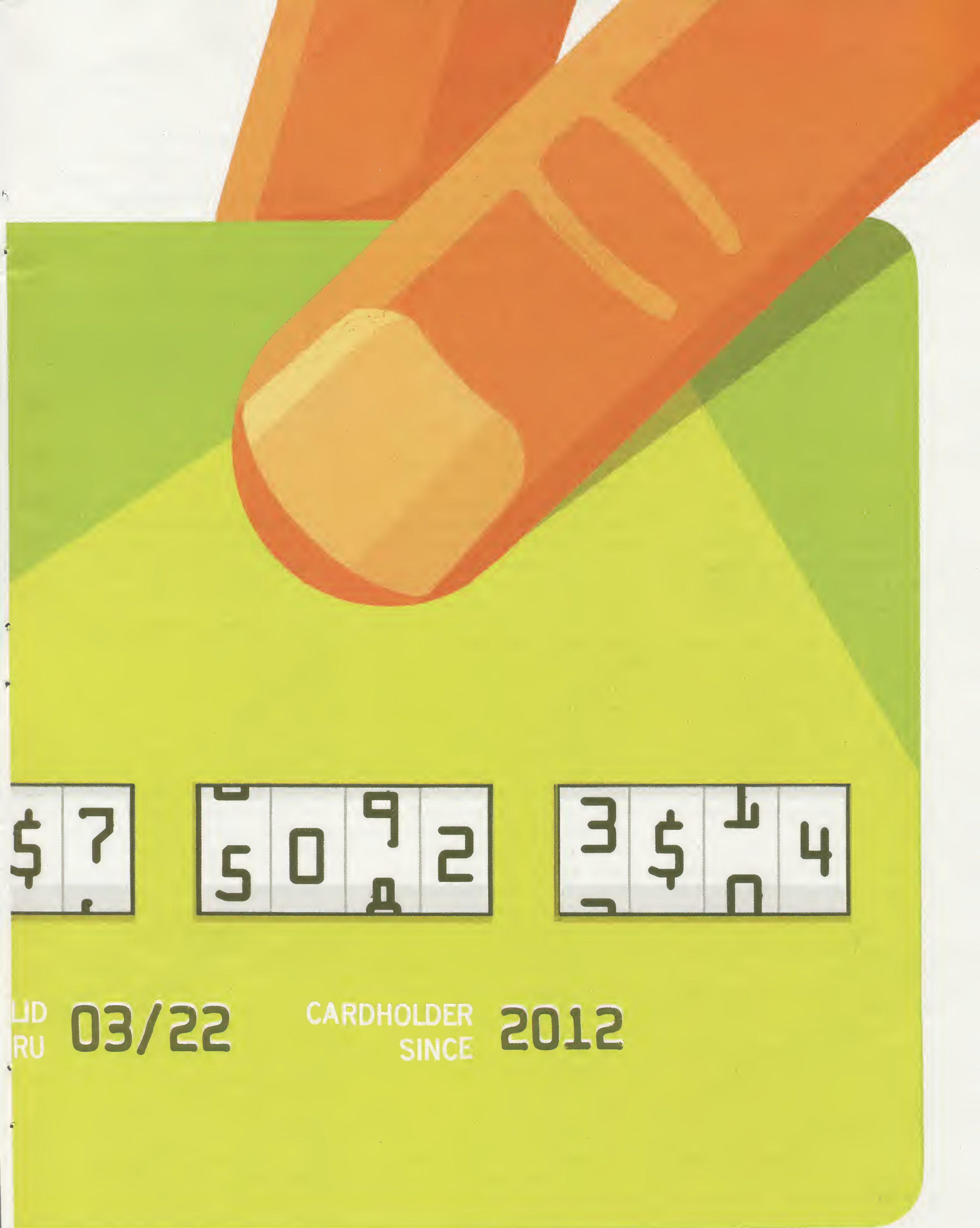
BY MIRIAM CROSS



IF YOU'RE USING A SINGLE REWARDS CARD that pays only one point or cent per dollar spent on your purchases, it may be time to rethink your strategy. With three or four carefully chosen cards in your wallet, you can bank enough points and miles to kick back in first class or lounge in a plush hotel suite. If travel is not your thing—or you don't want to spend time studying the ins and outs of award charts—you can still earn hundreds of dollars in cash back each year by rotating your spending among credit cards that match your spending patterns.

Melissa Frank, director of recruitment for an education technology nonprofit, holds nine cards. The Long Island, N.Y., resident delegates different purchases to different cards—for example, all travel goes on her Chase Sapphire Reserve Visa ($450 annual fee). Her points have taken her to South Africa in business class twice, helped treat her dad to a rain forest adventure in Peru, and cut the cost of numerous jaunts around the U.S. "I can't think of one instance in recent times that I have paid full price

ILLUSTRATIONS BY CHRIS GASH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CARDHOLDER SINCE
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out of pocket for a flight," she says.

Whether you want to dabble in credit card rewards or dive in deep, these five strategies will help you milk more value from your points and miles. You can combine tactics to earn even greater rewards. (Unless noted otherwise, the cards we recommend do not carry annual fees; for additional picks in a variety of categories, go to kiplinger.com/links/cards19.)

Don't worry that strategies to max out rewards will lower your credit score. That won't happen as long as you avoid a few common traps. In fact, your credit score may go up (see the box on the next page).

1

Concentrate on cash back

BEST IF: You want an easy and instant return, value total flexibility with your rewards, or travel infrequently.

Cash back may not have the panache of high-end travel rewards, but it's simple, versatile and doesn't lose value over time the way that loyalty points do. Among credit card users who say rewards are the feature they look for most in a credit card, 67% favor cash back over points or other reward types, according to a report from CreditCards.com.

Miguel Suro, a lawyer in Miami, and his wife, Lily, divide their spending among three cards: Amazon Prime Rewards Visa Signature, for 2% back on gas and 5% back on Amazon.com purchases; Citi Prestige Mastercard ($495), for five points per dollar spent on dining; and Chase Freedom Unlimited Visa, for 1.5% cash back on everything else. But he and Lily are rethinking the strategy because no-fee cash-back cards with generous rewards make more sense for them as new parents. "When you first read about travel hacking, you're excited by the promises of amazing trips around the world in first class. But it takes a lot of time and energy to research," he says. "Now that we are traveling less and buying lots of baby stuff, cash back is more attractive."

The easiest method to rev up your cash-reward rate is to rely on a single card that earns more than 1% per dollar spent. **CITI DOUBLE CASH MASTERCARD** pays a flat 2% on all purchases, as does the **FIDELITY REWARDS VISA SIGNATURE** (but you must deposit your rewards from the card into a Fidelity account). Other cards, such as the **CAPITAL ONE QUICKSILVER VISA**, return 1.5% on everything.

Next, layer on one or two more cards with higher payback in categories in which you spend the most, such as dining, groceries or gas. Dining is a hot category right now, with several cards, including the **UBER VISA** and **CAPITAL ONE SAVOR REWARDS MASTERCARD** ($95 annual fee, waived the first year), earning 4% or more at restaurants.

Sticking with cash-back cards that offer fixed bonus categories is easiest. If you choose cards such as the **CHASE FREEDOM VISA** or **DISCOVER IT**, which hike earnings on new categories to 5% each quarter, you will need to activate the categories each quarter to earn the higher rate. (Recent 5% categories on those cards included home improvement stores, grocery stores, gas stations and ride sharing. Fourth-quarter categories usually focus on shopping.)

A couple of other cards, including the **U.S. BANK CASH+ VISA SIGNATURE**, let you choose the categories that earn additional cash back, including such options as TV, internet and streaming services, home utilities, and cell-phone bills. Stay away from retail cards unless you're loyal to that store and shop there frequently, says Ted Rossman, industry analyst at CreditCards.com. "The sign-up bonuses are lacking compared with general-purpose cards, and even the ongoing rewards are not as attractive," he says.

Some cash-back cards have a catch: They cap your bonus earnings each year or quarter and drop the rate to 1% once you hit your limit. You may not worry about blowing through a $1,500 quarterly cap on, say, gas and drugstores, but a family could easily surpass the $6,000 annual limit for 6% cash back on groceries with the **AMERICAN EXPRESS BLUE CASH PREFERRED** ($95). Track your spending so you can revert to a card that earns more than 1% back until the clock resets. At the same time, familiarize yourself with how your credit card issuer defines its categories. For example, it's common for credit cards to exclude gas or groceries from the top-earning gas or grocery category when you buy those items at superstores, such as Walmart and Target, or wholesale clubs, such as Costco Wholesale and Sam's Club.

2

Target sign-up bonuses

BEST IF: You want to earn a hefty stash of points in a hurry or have a specific travel goal in mind.

The **CHASE SAPPHIRE RESERVE** made a splash in 2016 with its 100,000-point sign-up bonus. Mega bonuses are harder to come by these days, as issuers crack down on "churners" who drop a card after earning the bonus. Instead, issuers are focusing on ongoing rewards—such as high returns for everyday spending, says Rossman.

Still, the average sign-up bonus currently sits at an all-time high of 20,153 points or miles, according to WalletHub. New cardholders can generally expect to earn up to 50,000 or 60,000 points on travel cards with annual fees after spending several thousand dollars in the first three or four months. Sign-up bonuses on no-fee travel cards are lower, and cash-back cards typically offer $150 or $200 after spending $1,000 or less in the first few months. Discover It and **DISCOVER IT MILES** double all of the rewards you earn after your first year as a cardholder.

Sign-up bonuses are a useful way to bulk up your stash of points in a hurry, but new cardholders can fall into traps. For one, the size of a welcome bonus can be misleading. "The headline number isn't as important

as what those points are worth," says Julian Mark Kheel, senior analyst at ThePointsGuy.com. For example, he says, a 100,000-point bonus on a Hilton Honors card is not worth nearly as much as the 60,000-point bonus you get with the **CHASE SAPPHIRE PREFERRED VISA** ($95). (ThePointsGuy.com lists valuations of credit card points and miles at www.thepointsguy.com/guide/monthly-valuations.)

Issuers are also placing more restrictions on when you can and can't get a bonus. American Express, which limits cardholders to one bonus per card per lifetime, will tell you before you complete your application whether you are eligible for the bonus. With other issuers, you may need to read the offer terms because, says Kheel, some banks will give you a card even if you're not eligible for the bonus, and you won't realize it until after you've used the card.

You can't open a new Chase Sapphire card if you currently hold another Sapphire card or if you've received a bonus from a Sapphire card in the past 48 months. You also won't get a bonus on a new Citi card that accrues ThankYou points if you have received a bonus or closed an account with another ThankYou point–earning card in the past 24 months. Another catch: With most cards, the clock to start your minimum spending to earn the bonus begins as soon as your card is approved—not the day you receive your card or first use it.

As long as your credit score is high, it's fine to apply for an annual-fee card periodically to snag an enticing welcome bonus, especially if you have a large expense on the horizon that makes it easy to hit the minimum spending requirement. (You can also try "bill shifting" to prepay essentials and meet your minimum spending requirement within the deadline.) Welcome bonuses can fluctuate, so if you don't need the points anytime soon, do some internet research to see if the bonus on the card you are eyeing changes frequently.

If you decide the card benefits don't justify the annual fee after you pocket the bonus, consider downgrading the card to a no-fee version instead of canceling it outright. (If you request a "product change" to a no-fee card that normally carries a sign-up bonus, you generally won't get that bonus.)

Credit

Your Credit Score Won't Take a Hit

Holding multiple credit cards won't hurt your credit score. In fact, it may boost your score. Although your score will fall a few points every time you apply for a new card and the lender performs a "hard" inquiry, inquiries are a small component of your overall score.

Your credit utilization ratio—the amount you owe on your credit cards as a proportion of your cards' limits—is a bigger piece of your credit score, and it should improve as you add new cards to your collection and increase your available credit. (See "8 Ways to Boost Your Credit Score," Aug.)

To lessen the impact of new inquiries on your credit score and more easily meet spending requirements for bonuses, space out your applications to every six months or more. Waiting six months to open a new card can also help you circumvent Chase's "5/24 rule," which prevents you from opening a Chase card if you have opened five or more credit cards (from all issuers) within the past 24 months. Many issuers also restrict how many of their cards you can open in a one-, two- or three-month period.

If you carry a balance, move it to a card with a low or zero-percent rate. Rewards cards tend to carry higher interest rates than other credit cards.

3

Earn transferable points

BEST IF: You like flexibility when you travel or want to trim the cost of flights or hotels.

Savvy travel hackers squeeze the most value out of credit cards that earn transferable points, which you are able to shift from your credit card to

a number of airline (and sometimes hotel) partners. Most of these rewards programs also allow you to reserve flights, hotels, rental cars and more through an online portal at a rate of 1 cent per point or better.

You can rack up transferable points through certain credit cards tied to American Express Membership Rewards, Capital One, Chase Ultimate Rewards, Citi ThankYou Rewards and Marriott Bonvoy. If you're a moderate spender, it's best to concentrate your points in one program rather than spreading them around.

The Chase Sapphire Preferred and Chase Sapphire Reserve are good starter cards because you will earn Ultimate Rewards points that you can transfer directly to JetBlue, Southwest or United. The **AMERICAN EXPRESS EVERYDAY**, along with higher-end cards such as the **AMERICAN EXPRESS PLATINUM** ($550), earn Membership Rewards points that can go straight to Delta or JetBlue. If you dive into the nitty-gritty of award charts, you could find even better opportunities to book tickets, even on domestic carriers, through international airline partners (see the box at right).

4

Keep it in the family

BEST IF: You are loyal to one bank or brand, or you're an avid traveler who wants to earn more transferable points.

Some issuers spice up their offerings for customers who have a bank account and credit card from the same company. For example, members of Bank of America's Preferred Rewards program can earn a bonus of 25%, 50% or 75% on rewards with eligible Bank of America credit cards. To get those bonuses, you must have a combined balance in eligible Bank of America banking and Merrill investment accounts averaging at least $20,000 over three-month periods, with higher balances earning the bigger bonus rates.

Sticking with one "family" of credit cards can also help you wring greater value from cash-back cards. For example, if you hold the Chase Sapphire Preferred or Chase Sapphire Reserve card, you can lump any points you earn from the Chase Freedom and Chase Freedom Unlimited cards into that account.

5

Pay through a portal

BEST IF: You like to shop online and are willing to jump through extra hoops.

Making purchases through online shopping portals that link to your retailer, rather than directly on the retailer's website, can nab you an extra helping of cash, points or miles.

Airlines, credit card issuers and other companies host online shopping portals, but the easiest way to compare rates is to search for a merchant on an aggregator site such as www.cashbackholic.com, www.cashbackmonitor.com or www.evreward.com. Then follow the link directly to the portal of your choice. (Don't navigate to a different page mid purchase or disable cookies in your internet browser, or you may lose your rewards.) Check your portal's terms and conditions before layering on coupon codes that you find outside of the portal's website; using one may override your earnings.

You can rake in additional points on top of your portal purchase by choosing the right credit card. For example, most U.S. airlines have a dining rewards program with which you earn bonus miles when dining at a participating restaurant. When registering for a program, choose the credit card that earns the highest rebate on dining. If you have an American Express or Chase card, scan Amex Offers or Chase Offers for targeted perks—including extra points and cash back—from various merchants that you can add to portal purchases and the points you earn from your card. ■

More Strategies

BEST WAYS TO CASH IN

You'll get the most bang for your buck by redeeming the points and miles you acquire from travel cards for travel, especially first- or business-class seats on international flights. "You can get an $8,000 ticket for less than 200,000 miles," says Brian Karimzad, co-founder of personal finance site MagnifyMoney.com.

If you want to spring for a special vacation, one way to strategize your redemption is to work backward: Decide where you want to go, which airlines will take you there, and which hotels you might want to stay at. Then zero in on cards with the best rewards potential and the best transfer partners. Before you move your points, check the going rate with each partner. Some tricks are counterintuitive. For example, you can use Virgin Atlantic miles to reserve Delta flights for less than Delta would require with its own miles.

Aim for a return of 2 cents or more per mile. (To calculate the value of your miles, divide the cash price of the ticket by the number of miles needed to book it.) It may be more economical to book through the travel portal, especially if you can redeem your points at more than 1 cent each. If you redeem travel points for non-travel statement credits, merchandise or gift cards, the rate may be less than a penny apiece.

If you're counting on a stack of points to pay for an upcoming trip, leave plenty of time for your rewards to post because that may take up to 12 weeks. But avoid hoarding miles for more than one or two years because they devalue over time.

Cash-back cards usually let you redeem the rewards as a statement credit, check or bank account deposit at a rate of 1 cent per point. Merchandise is typically the worst value, according to WalletHub's 2019 credit card rewards report. Gift cards will sometimes bake in a small premium if you buy them with your card earnings.

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ISTOCKPHOTO.COM

DRIVE TIME | David Muhlbaum

Get a Grip on Winter Roads

All-wheel drive may lend you a false sense of security. The right tires will give you more traction.

THE NEXT TIME YOU'RE DRIVING IN THE snow (or you're visiting somewhere it snows), have a look at the vehicles you see in the ditch: Odds are a lot of them have all-wheel drive. What's behind this perverse outcome for people who expected their car to get them where they wanted to go in sloppy conditions? It's probably their tires.

No doubt, all-wheel drive helps you accelerate more quickly when traction is scarce. "But really, you should be considering your ability to stop and corner in snow," says Gene Petersen, who oversees tire testing for Consumer Reports. And all-wheel drive does *nothing* to help with that. Yes, antilock brakes and stability control (standard in all cars since 2012) can be useful at keeping you on the road, but only up to a point.

"A lot of people think these devices manufacture traction," says Woody Rogers, a product specialist at online vendor Tire Rack. "But they just make the most of the traction that you have."

The solution—whether your car is all-, rear- or front-wheel drive—is to get more traction with dedicated winter tires. That's right, an entirely different set of tires (ideally mounted on their own wheels) for use only in the cold season. Winter tires boast special rubber compounds that are more flexible in cold weather (to help grip ice) and have more edges in their treads that help the tire both cut into and stick to snow.

An analogy for the skeptical: You wouldn't hesitate to put on different shoes when it's slippery out, right? So don't expect the all-season wear-forevers your car came with to do a good job in the snow.

Slip sliding. To make the case more directly, Tire Rack recently set up a demonstration on the ice rink at Notre Dame University in South Bend, Ind. On the same ice where the Fighting Irish hockey team faces off in the Big 10 conference, a clutch of automotive journalists got to test two identical, all-wheel-drive Toyota RAV4s—one with the all-season tires that come standard, another with a set of winter tires. When the countdown light turned green, we drag-raced them down the ice for a whopping 60 feet, then slammed on the brakes.

Because they were timing us, we got competitive (of course). But the numbers we put up were just for lunchtime boasting. The collective data showed that the Toyota with winter tires accelerated somewhat better than the one with all-seasons, but when stopping, the benefits were far more remarkable.

Back on the ice, but with Tire Rack's test drivers behind the wheel, we took laps around a small course defined by cones, first at 9 miles per hour, and then again at 11. At 9 mph, both vehicles did fine. At 11 mph (that's 22% faster), the RAV4 with all-season tires plowed right through the cones and off the imaginary road. The stability

■ ALL-SEASON TIRES CAN QUICKLY LOSE THEIR GRIP ON SLIPPERY SURFACES.

control didn't stand a chance, and there was nothing our pro at the wheel could do. If that cone line had been oncoming traffic or a guardrail, well, it would have been a bad scene for sure.

Making the decision. Do you really need winter tires? Tire Rack has a U.S. map reflecting snowfall frequency that can help answer that question (see kiplinger.com/links/wintertires). The decision also hinges on how confident you are in your winter driving ability and whether you have a job that requires you to get somewhere no matter what the weather is.

Prices for winter tires vary widely by the car you have and the wheels you choose, but a set of winter tires and wheels could easily cost $1,000. Remember that when your winter tires are on, you're not using what are now your, um, fair-weather tires. You won't have to replace them as quickly.

If you're in the market for a new vehicle and winter traction matters to you, another way to approach it is to consider passing up all-wheel drive and buying a set of winter tires instead. For example, you'll pay a $1,400 premium for all-wheel drive on the 2019 Mazda CX-5. A set of Bridgestone Blizzaks on steel wheels for the CX-5 are $1,143 at Tire Rack, ready to go and mount up (including new tire pressure monitor sensors). What's more, the all-wheel-drive CX-5 will return roughly 3% worse gas mileage, all the time.

Winter tires generally don't wear as long as all-weather tires, says CR's Petersen. "Wet and dry stopping distances aren't as good. And in some cases, the handling is not as good." Which is why they need to come off in the spring.

If those shortcomings give you pause—especially if you have a particularly sporty ride—there's a subcategory just for you: winter performance tires. These trade a bit of winter grip for better dry handling and higher speed ratings. ■

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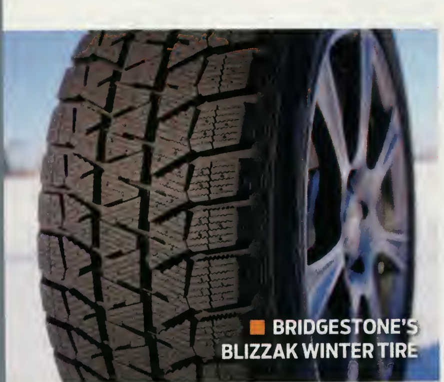
Kick the Tires

Ready to Go Shopping?



■ BRIDGESTONE'S BLIZZAK WINTER TIRE

Standards set by an independent rating regime (established by the Rubber Manufacturers Association) determine whether a tire earns an M+S (mud and snow) rating, as most "all-season" tires do, or the more-demanding three-peak snowflake symbol (3PMSF). The three-peak snowflake symbol carries more weight and may be familiar to drivers in states that have winter driving restrictions (frequently on highways at altitude). To get the rating, a tested tire must have 10% better acceleration on snow than a reference tire.

But 3PMSF doesn't test braking or cornering on snow, and it doesn't test results on ice. Truly good performance in winter conditions comes only from a dedicated winter tire.

So, what's that? Tire vendors such as Tire Rack, Discount Tire Direct and Costco.com (to name some of the online biggies) clearly segregate winter tires, and the manufacturers also guide you with obvious branding, such as "Blizzak" (Bridgestone), "Arctic" (General) or even "Winter" (Goodyear, Michelin, Pirelli). You'll get the picture.

You'll pay less than $400 for a set of the least costly snow tires, for small vehicles, to more than $1,000 if you're equipping, say, a Porsche Cayenne luxury SUV.

Another question: Are you going to mount the tires on your existing wheels, or will you buy tires and wheels together? If you stick with your own wheels, you don't have to buy four new ones (anywhere from about $350 to thousands), but you'll need to pay between $60 and $150 twice a year, every year, to mount the winter tires on your rims and put your summer tires back on again.

Your choice could affect where you buy your tires. Online vendors such as Tire Rack, Discount Tire Direct and 1010tire let you choose from a huge inventory of both tires and wheels that they will mount and balance and then ship to you (or the installer of your choice). Note that you'll likely also be on the hook for new tire-pressure sensors, at $200 to $300 for four.

Costco.com stocks winter tires but not wheels. You can try your local independent or chain shop, too, but its familiarity with winter rubber will likely depend on whether you're in the snow belt. Town Fair Tire, a New England chain, offers both winter tires and tire-wheel packages.

COURTESY TIRE RACK, BRIDGESTONE

TAKEAWAY

How to Check Out a Charity

Nobody wants to feel like a Scrooge during the holidays, but before you open your wallet, make sure the organization deserves your support.

RESEARCH IT.

Charity Navigator (www.charitynavigator.org), CharityWatch (www.charitywatch.org) and the Better Business Bureau's Wise Giving Alliance (www.give.org) rate and review charities. Also see if the charity is registered with your state. Find your state's charity regulator at www.nasconet.org.

REVIEW THE CHARITY'S WEBSITE.

Look for information about the charity's missions and programs and how donations are used. That will also help you avoid giving to a bogus charity that has a name similar to a legitimate organization—a common tactic among scammers.

SEE IF YOUR DONATION IS TAX-DEDUCTIBLE.

A charity must qualify as a 501(c)(3) organization to receive tax-deductible contributions. Some organizations that are "tax exempt"—such as some lobbying and political groups—are themselves free from taxes but ineligible to receive tax-deductible donations. You can look up a charity's tax status at https://irs.gov/charities-non-profits/tax-exempt-organization-search.

GIVE DIRECTLY.

Some solicitations made over the phone or internet are scams. Others may come from professional fund-raisers who skim off a percentage of your donation.

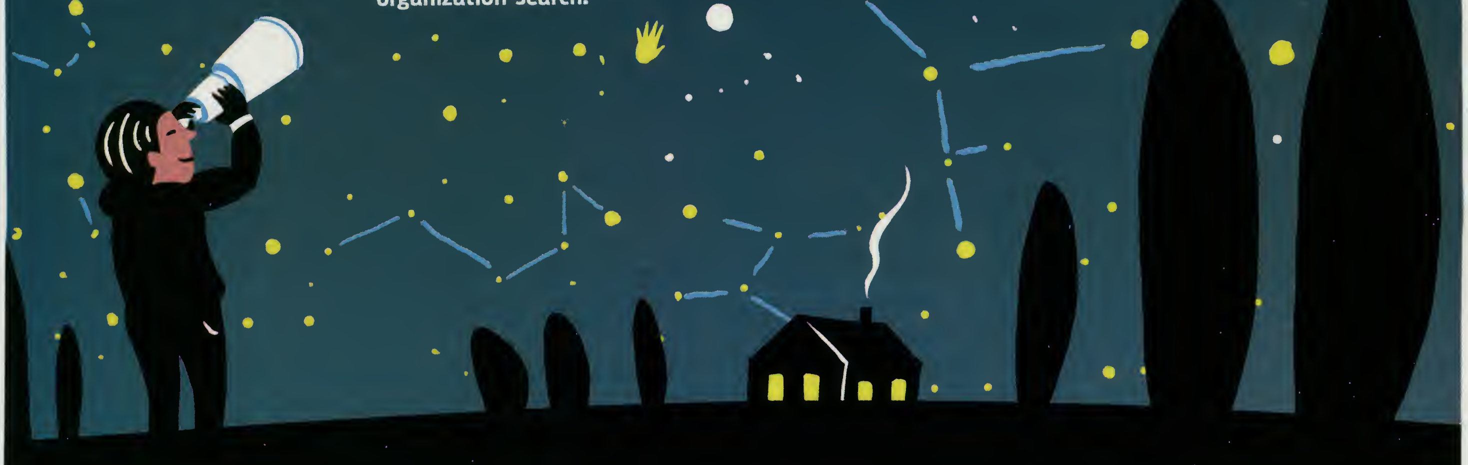


ILLUSTRATION BY OLIVER WEISS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